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DOCTORAL DISSERTATION

Family firms: the role of non-economic factors

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***FAMILY FIRMS ARE MOTIVATED BY MORE THAN THE MONETARY OUTCOME OF
ORGANIZATIONAL ACTIVITY***

Luís Gómez-Mejía

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CHAPTER I: GENERAL INTRODUCTION OF THE THESIS

1.1 Economic and academic relevance of family firms

Found virtually in every sector of the world's economies, family enterprises are the most common form of business entity in the world. They dominate economic activity across the world and are one of the main generators of sustainable wealth. It has been reported that in Brazil, Italy and Spain, over 70 percent of the businesses are controlled by families (Habbershon, 2006). Across Europe, about 70%-80% of enterprises are family businesses and they account for about 40%-50% of employment. Therefore, family firms have a significant impact on the economy and employment in several sectors and industries (Habbershon & Pistrui, 2002). Therefore, the importance of family businesses to a country's economic well-being can not be questioned.

Despite these facts, research on family firms has only existed since the mid 1970s (Wortman, 1994). With only sporadic publications before 1975, the field has grown significantly since then (Jaskiewicz, 2006; Sharma, 2004; Zahra & Sharma, 2004).

Scholars argue that family business research heavily borrows from other fields such as psychology, sociology, economics, and law (Bird, Welsch, Astrachan, & Pistrui, 2002; Sharma, 2004; Wortman, 1994). Nowadays, there are numerous fields used to define and study the family firms' behavior in different contexts, such as the resource based view, the agency theory, the stewardship theory etc... All these theories have allowed the study of family firms, but recently the field of family firms has built its own approach or framework to reach a better comprehension of family firms. This framework is SocioEmotional Wealth (SEW). It combines Behavioral Agency Theory (BAM) (Wiseman & Gómez-Mejía, 1998) with the importance that for family firms have non-economic goals, grouped under the SEW concept, to argue that SEW constitutes the primary reference point in family firm decision making. It also posits that unlike in non-family firms, in family firms decision making is primarily devoted to protect its SEW endowment (Gómez-Mejía et al., 1997; Gómez-Mejía, L.R., Cruz, C., Berrone, P., & De Castro, J., 2011,; Berrone, P., Cruz, C., & Gómez-Mejía, L.R., 2012). In doing so, the SEW framework also brings important insights for management theory in general as it allows us to understand the impact that non-economic goals have in firm decision making processes.

The present dissertation seeks to contribute to our understanding of the impact of SEW (i.e. non-economic factors) in the decisions of family firms. It presents 3 studies that link family management and control of firms with entrepreneurial orientation, corporate social responsibility and the CEO level of satisfaction with the firm. By extension we aim at better understanding how non-economic utilities influence firm's decision making. In order to do so we will use the SEW framework in

combination with other theories throughout the entire dissertation. Therefore the SEW framework can be seen as the central conceptual framework of the dissertation.

A very relevant question, that has been the subject of many articles in the family firm literature, is what constitutes a family firm.

1.2 Definition of family firms

Perhaps one of the most discussed issues in the field is how to define a family enterprise. Although many researchers have tried to develop a satisfactory definition (Chua et al. 1999, Miller et al. 2007), there is still no consensus about a widely accepted definition (Chrisman et al. 2005b). While some studies in the finance literature identify any public company where a family or a founder owns more than 5 percent as a family firm (Anderson and Reeb, 2003; Cronqvist and Nilsson, 2003; Villalonga and Amit, 2006), other studies define firms only as family firms if the first succession into the second generation has taken place (Bennedsen et al. 2007; Pérez-González, 2006). However, in most studies a family firm has been characterized as a firm that is controlled and usually managed by multiple family members, sometimes from multiple generations.

A study conducted by the European Commission, Enterprise and Industry Directorate General in 2008 identified more than 90 definitions of family firms only in Europe, which mainly require major family influence on ownership and management/strategic control. Other characteristics used to differentiate family businesses from non-family businesses are the active involvement of family members in the enterprise's everyday activities (i.e., the formal or informal employment of family members in non-managerial positions), the enterprise's contribution to the family's income generation, and intergenerational considerations (i.e., the intention to ensure the enterprise's sustainability beyond the entrepreneur's (professional) lifetime).

As indicated the two **common elements** employed in the literature to differentiate family from non-family firms are ownership and management/strategic control. Only very few of the existing definitions do not refer to the **ownership** aspect. But even within this dimension differences can be found:

- In some definitions, this criterion is not specified any further, i.e., it is just indicated that the business is to be owned by the family.
- The majority of the definitions refer to a dominant ownership position, e.g., by requiring a majority of (voting) shares or the ownership of more than 50 % of the shares/capital.
- In some definitions (i.e., in Cyprus, Finland, France, Portugal, Spain or the United Kingdom as well as by the Family Business Network (FBN) International) a differentiation among

enterprise types is conducted. So, while for partnerships or private limited companies a share of at least 50 % of family ownership is required, between 10 % and 25 % are sufficient for public limited companies (or very large enterprises).

- One of the Danish definitions indicates that the family is to be the “largest owner”.
- According to Danish and French definitions the family not necessarily needs to hold direct ownership but, for example, the involvement of funds (in which the family is participating) is sufficient to satisfy the indicated ownership criterion.

The second most common element in the identified European definitions for family business concerns the **strategic/managerial control** of the enterprise. About ¾ of the definitions analyzed in the previous study include this aspect whereby a comparatively wide range of different requirements can be found:

- “soft criteria”
 - family relations affect the assignment of the management
 - family indirectly runs the company
 - “major family influence/dominance” of the management (in terms of strategic decisions)
 - “significant proportion” of the enterprises’ senior management
 - “most important decision” made by the family
 - “family control” of the management of the enterprise
 - at least 2 generations having had control over the enterprise

“hard criteria” (interestingly, also in those definitions requiring a certain number of family members represented in the management, no reference is made to the company size)

- CEO has to be a family member
- 1 family member is actively involved in the operative management of the company
- At least 1 family member is actively involved in the operative management of the company

- More than 1 family member in the management
- CEO and at least 1 management team member stems from the family
- At least 2 directors/board members stem from the family
- At least 3 board or staff members stem from the family
- Majority of the management team stem from the family

The use of these different definitions (European Commission, Enterprise and Industry Directorate-General, Viena, 2008) is a major problem in family firm research. Although studies analyze related topics, the use of different family firm definitions makes the comparability of the results obtained in different studies difficult.

Chrisman et al. (2005b) in their review of the important trends in family firm research, present two approaches of how family firms are defined in the reviewed literature. They distinguish between the components-of-involvement approach and the essence approach. Although the components-of-involvement approach treats family involvement as a sufficient condition in order to define a firm as a family firm, the essence approach treats it only as a necessary condition. Following the components-of-involvement approach, a firm can be defined as a family firm when a) a family is the owner, b) the firm is family-managed, or c) the firm is controlled by a family. If one of these three characteristics applies to a firm, it can be defined as a family firm. The essence approach is more restrictive and defines firms only as family firms when family involvement leads to distinctiveness and specific behaviors. Four main characteristics constitute the essence approach: 1) a family's influence regarding the strategy of the firm, 2) a family's vision and intention to keep control and hand the firm over to the next generation, 3) family firm behavior, and 4) distinctive "familiness" defined as resources and capabilities that are unique to the family's involvement and interactions in the business. In order to identify a firm as a family firm these characteristics would be required.

In this dissertation, we use different definitions of family firms depending on the sample we are working with. Some definitions take into consideration just the ownership, others more restrictive also add the control and management elements ¹. For example, in the second chapter, we use different ownership thresholds to identify family firms depending on whether the company is privately or publicly held. In this study we employ a sample of Spanish manufacturing firms. In concordance with previous research (e.g. Barontini and Caprio, 2005), family firm is defined as any firm where the family controls directly or indirectly more than 50 percent of the shares if the

¹ These are the observable characteristics of family influence on firms. That is why they have been commonly used in empirical research. Other aspects such as intergenerational influence or distinctive familiness are seldom captured (some exceptions exist like the F-PEC scale proposed by Klein et al. 2005).

company is privately held, or more than 10 percent of shares if the company is publicly traded. Because of the difficulties in gaining access to data on privately held family firms' data, most of the existing evidence on the impact of SEW in family firms' decision making have been conducted on publicly traded firms. Ownership is less disperse in privately held companies. Consequently, the percentage of family ownership in privately held companies necessary to guarantee family control and influence over business decisions should be greater. With a large majority of privately held companies in which the family owns more than 50% of the equity and even 100% (Cruz et al., 2010) a minimum of 50% ownership is considered reasonable in privately held firms. For publicly held firms, a 10% ownership has been considered as a reasonably conservative minimum threshold (Gómez-Mejía, L. R., Makri, M., & Larraza Kintana, M., 2010).

However, in the third chapter, in which we use a large sample of publicly traded European firms, we classified the company as a family firm if two criteria were met: a) an individual or a family group owned at least 20% of the shares during the whole period 2001-2010.² b) there was at least one member of the family serving as Director in the Board. The two criteria were set based on previous research which shows: a) that controlling more than 20% of voting rights is enough for a shareholder or group of shareholders to exercise significant influence on a firm in a European context (Faccio and Lang, 2002); b) that this influence becomes even more significant if at least one family member is on the Board of Directors (Anderson, R.C., Mansi, S.A. & Reeb, D.V. , 2003; Gómez-Mejía, et al., 2003).

In the fourth chapter, the sample is composed by 1500 Spanish small firms in high and medium technology manufacturing and service industries. All of them are privately held (Arosa, Iturralde y Maseda, 2010). In this case *family firm* is defined as any firm where the family controls directly or indirectly more than 50 percent of the shares consistency with the first chapter definition. As it will be shown, as a robustness check, we also define *family management* (FM) when family controls directly or indirectly more than 50 percent of the shares and the CEO of the firm is also family member. Furthermore, we also check our hypothesis with another restrictive definition of family firm: the *family control* (FC) that takes value 1 when family controls directly or indirectly more than 50 percent of the shares and at least one family members are present on the board of the directors.

Besides, one of the biggest challenges of developing a general definition is the heterogeneity of family firms (Arregle et al., 2007; Galve, 2002). Family firms are a unique group of organizations, but there are also differences within this group. The involvement of the family in the management and ownership structure of the firm is unique to each family firm and thus it cannot be seen as constant factor. This is why in this last chapter, we distinguish between different types of family

² Consistent with Villalonga and Amit (2006) and Miller, Le Breton-Miller, Lester and Canella (2007), we took as the focal family the ones with the most percentage of shares.

firms: *Founder_family* (firms that are family firms and the founder is still present in the management of the firm.) and *Next_generation* (family firms managed not by the founder but by his/her heirs).

1.3 The role of non economic factors in family firms.

The literature on family firms has always stressed that one element that distinguishes family from non-family firms is the importance that in the decision making of the former have no purely economic elements or aspects. In this vein, for example, Habbershon and Williams (1997) introduced the concept of “familiness”. It refers to the unique set of resources of a family business which arise from the interactions between the family system as a whole, the individual family members, and the business itself. Habbershon, Williams, and MacMillan (2003) noted that familiness can even be a source of competitive advantage.

Besides, this familiness cannot be separated from its corporate culture. Corporate culture can be defined as the values, beliefs, and attitudes that influence individual and group behavior within a business organization (Miller 2000:22). Barney’s (1986:657) definition also adds assumptions and symbols as elements of corporate culture. Familiness overlaps with the corporate culture of a family business, as the founder’s and founder’s descendants’ own values, beliefs, assumptions, and attitudes are absorbed in the corporate culture and influence the way things are done in the business. When culture is transmitted, familiness will then be automatically transmitted as well. These constructs represent attempts to capture the emotional connection family owners feel for their firms and to portray the organization as a recipient of the family’s affective stock, which influences the psychological, behavioral, social, and cognitive aspects of managing the business.

In addition to emotions, another noneconomic factor that is often mentioned in the literature as a distinguishing feature of family firms is how values idiosyncratic to the family permeate the organization (Dyer, 2003; Fletcher, 2000; Habbershon & Pistrui, 2002). The perpetuation of family values through the business (Handler, 1990), the preservation of family dynasty (Casson, 1999) and the conservation of the family’s social capital (Arregle, Hitt, Sirmon, & Very, 2007) are frequently highlighted in the literature. It is defined as the “affective endowment” of family owners, including the family’s desire to exercise authority, enjoyment of family influence, maintenance of clan membership within the firm, the appointment of trusted family members to important posts, retention of a strong family identity, the continuation of family dynasty, etc.

A third distinctive aspect of family firms noted in the literature concerns altruistic behavior among family owners, referring to their desire to cater to the welfare of the family unit. By exercising altruism family owners receive satisfaction by benefiting family employees independent of their relative contribution to the organization or their capacity to reciprocate in kind (Gomez et al, 2011). The importance of altruism has received renewed attention in the family business literature over the

last ten years (see for instance, Jorissen, Laveren, Martens, & Reheul, 2005; Lubatkin, Schulze, Ling, & Dino, 2005; Lubatkin, Durand, & Ling, 2007; Miller, Le Breton-Miller, Lester, & Cannella, 2007).

In recent years Gómez-Mejía et al (2007) proposed to group all the non-economic factors that are relevant in family firms under the SEW label. According to these authors SEW encompasses “non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty” (pp. 106).

But the proposal made by Gómez-Mejía and his co-authors in their 2007 piece goes beyond coining a new concept to group all those non-economic elements present in family firms. These authors consider SEW as the central element to understand and explain the different strategic behaviour of family firms. Using BAM (Wiseman & Gómez-Mejía, 1998) they argue that SEW is the main reference point to controlling families in family firms, such that their decisions are primarily directed towards SEW preservation. BAM integrates elements of prospect theory, behavioral theory of the firm and agency theory and considers decision makers are loss averse and evaluate their strategic alternatives relative to a reference point. In family firms, this reference point is SEW. Controlling families would prioritize those strategic alternatives that would protect SEW, even if it means to take more economic risk (Gómez-Mejía et al., 2007; Gómez-Mejía et al., 2010). Thus the desire to preserve the family's SEW is separate from efficiency or economic instrumentality considerations, such that SEW preservation activities are prioritized over other alternatives that may lead to better economic outcomes. Hence, their work provides a conceptual framework to understand the decision making process of family firms and how it deviates from the decisions made by non-family firms. At the same time it provides a new perspective to understand the role that non-economic objectives can have on decision making processes in companies.

So far, research on family firms has firmly established that SEW preservation manifests as an essential drive in a variety of decision contexts including R&D, environmental investments, compensation, diversification and earnings management (Berrone et al., 2010; Chrisman and Patel, 2012; Gomez-Mejía et al., 2011; Gómez-Mejía et al., 2010). This evidence has shown the SEW framework as a valid conceptual referent to understand the behavior and decisions of family firms and has positioned this framework as the more prominent theoretical approach in today's literature in family firms (Gómez-Mejía et al., 2011; Berrone et al., 2012).

Despite its relevance this conceptual framework is relatively young (2007). So, it is not surprising that most of the research on family businesses generated to date has focused on evaluating and determining the validity of the basic tenets of this approach. As noted above these postulates have been refuted.

However, as a result of all this work of validation and consolidation, and following a logical process in any field of knowledge, some scholars have challenged some aspects of the conceptual framework that need to be developed with greater precision in order to build a more accurate conceptual framework. One that better accommodates the heterogeneity of behaviors and activities observed in family businesses.

The most questioned aspects are:

Monolithic concept. This was firstly questioned by the FIBER model (Berrone et al. 2012). By its very nature, the concept of SEW is multidimensional (Berrone et al, 2012). Based on the family business literature and basic social science disciplines that support it, Berrone et al (2012) propose that there are five major dimensions of SEW that may be derived from prior research. They would collectively label these five dimensions as FIBER.

Family control and influence (F). The first dimension refers to the control and influence of family members. One key characteristic that distinguishes family firms is that family members exert control over strategic decisions (Chua et al., 1999; Schulze, Lubatkin, & Dino, 2003b).

Family members' identification with the firm (I). The second dimension addresses the close identification of the family with the firm. Numerous family business scholars contend that the intermeshing of family and business gives rise to an inherently unique identity within family firms (e.g., Berrone et al., 2010; Dyer & Whetten, 2006).

Binding social ties (B). The third dimension refers to family firms' social relationships. Recent research by Cruz, Justo, and De Castro (2012) argues that SEW provides kinship ties with some of the same collective benefits that arise in closed networks, including collective social capital, relational trust (Coleman, 1990), and feelings of closeness and interpersonal solidarity (Uzzi, 1997).

Emotional attachment (E). The fourth dimension deals with the affective content of SEW and refers to the role of emotions in the family business context. Although emotions are an "integral and inseparable part of everyday organizational work" (Ashforth & Humphrey, 1998, p. 98), in organizations where family relationships dominate, there is a longer history and knowledge of shared experiences and past events that converge to influence and shape current activities, events, and relationships.

Renewal of family bonds to the firm through dynastic succession (R). The fifth and last dimension of SEW refers to the intention of handing the business down to future generations. Indeed, Zellweger and Astrachan (2008), and Zellweger, Kellermanns, et al. (2012) suggest this transgenerational sustainability as one of the central aspects of SEW.

Once identified that the SEW can be a multidimensional concept, questions arise for example about what is the role of the different dimensions, or whether they always generate the same kind of response from family businesses, whether they can evolve or change over time, or whether family firms can pay more attention to some dimensions and less to others.

Family firms may vary in the importance and value that attach to those different elements of SEW, thereby producing different behaviors among family firms (Miller and LeBreton-Miller, 2014). SEW priorities may also vary among family members within a firm, or they also may vary across the life cycle of a family in a firm: founders may desire a robust business to pass on to later generations, whereas later generations may wish to benefit from the wealth and community status wrought by their family firm (Le Breton-Miller & Miller, 2013b; Lubatkin, Schulze, Ling, & Dino, 2005). All this discussion has been engendered recently, and therefore it is a largely unexplored area. Family firm research would benefit from research that seeks to identify how SEW dimensions interact with each other, and how family firms manage to protect those different SEW dimensions or how those SEW priorities evolve across generations and members of the same family.

Related to the monolithic concept is the issue of whether SEW should be considered as a flow or as a stock. Chua, Chrisman and Di Massis (2015) have recently conceptualized SEW as a function of both stocks and flows, and have identified the limitations of earlier conceptualizations that mostly focused on stocks while neglecting changes in socioemotional endowments through flows. This idea of SEW as a flow connects with the previously noted idea of SEW as a dynamic endowment whose value and relevance may vary over time and across generations.

Cause-effect connection. Another challenge facing by the SEW approach is the problem of connecting cause and effect. Sometimes outcomes attributed to the preservation of family SEW may be caused by factors that have little to do with those intentions. Limiting corporate social responsibility, entrepreneurial activities, internationalization, risk taking... may be motivated not only by SEW concerns, but the quest for greater short-term financial returns (Gómez-Mejía, Makri, Hoskisson, Sirmon and Campbell, 2010; Gómez-Mejía, et al. 2010). Thus, the connection between motives and rewards, and among each of them, becomes difficult to disentangle. In this sense, future research would benefit from moving beyond final performance outcomes and pay a closer examination of motives behind the decisions being made.

Context. SEW have multiple dimensions that may interact with each other and with economic benefits and firm value (economic wealth) in different ways depending on the context and time being considered (Kellermanns, Eddleston, and Zellweger, 2012; Le Breton-Miller and Miller, 2013; Naldi, Cennamo, Corbetta, and Gómez-Mejía, 2013). For example, Chrisman and Patel (2012: 1) found that “when performance is below aspiration levels family goals and economic goals will tend to converge. In this situation R&D investments of family firms are expected to increase and the

variability of those investments decrease, relative to non-family firms.” So, the pivotal reference point for family owners will shift from SEW preservation to economic considerations. Consequently, it is very important to analyze the moderating role of different context related variables that could change the preferences of family firms.

Measurement. Probably the most important challenge the SEW approach is facing nowadays has to do with the measurement of SEW. To date most of the empirical evidence on the SEW framework has been obtained comparing family and non-family firms. According to the large literature on family firms, these firms are characterized by the importance controlling families attach to the preservation of the non-economic utilities grouped under the SEW label. However, in most of the previous research SEW preferences are not assessed directly. For the most part they are constrained to the dummy variable that separates family from non-family firms. Further, the family character of the firm is rarely measured by stated family motivations but instead by examining governance variables of family involvement in ownership and management. Hence, more fine-grained information about the preferences, motivations, and social behavior of family firm owners and executives would probably help to reach a better understanding of the importance of SEW and its protection in family firms, and how it evolves over time and generations. There are already some attempts to move forward in terms of measurement. For instance, a review and analysis of the family business research literature from Miller and Le-Breton Miller (2014) leads them to suggest that parsing SEW’s outcomes into groups that align roughly with the agency and stewardship perspectives (i.e. “restricted” and “extended”) would allow researchers to enrich their use of the construct. Another attempt comes from Chua, Chrisman and Di Massis (2015), who have also make a closer look at the SEW, conceptualizing it as a function of stocks and flows and identifying the limitations of earlier conceptualizations that mostly focused on stocks while neglecting changes in socioemotional endowments through flows.

The previously noted discussion on the SEW dimensions and its evolution and weight in each family business, has further fueled the debate on the importance of measuring the SEW. Direct measures of SEW and particularly its constituent dimensions, would be instrumental to better comprehend for example how SEW is generated, how it evolves or how it varies between generations.

In this context, this thesis seeks to contribute to knowledge about family businesses and the construction of a theory about their behavior, through three studies examining different aspects of family businesses. Our aim is to assess the importance of non-economic factors (listed in the concept of SEW) in decisions of family businesses through the lenses provided by the SEW framework. In doing so, we seek to provide further evidence and theoretical arguments to build a richer framework to analysis and achieve a greater understanding of the phenomenon under study.

In this vein the thesis considers different moderating variables: high technology industries (study 1 and 2), declining performance (1, 2 and 3 studies) or national distance (study 2). The thesis also takes into consideration the multi-dimensional character of the SEW and how these dimensions determine the response to pressure from stakeholders (different response to external than internal: image versus control) (study 2): Finally, SEW evolution and some of its dimensions, through generations (study 3) or the indirect SEW measurement through the effect of financial performance on overall CEO satisfaction (study 3).

1.4 Chapters development: Addressing specific research gaps

While research has established the role of SEW in shaping family firm behavior, there are still, as it is going to be shown in the following chapters of the present dissertation in more detail, some issues related to SEW that deserve further attention. Trying to solve some of the problems facing by this theory, we will integrate the central tenets of the SEW framework with other theories that enrich their content and help explain certain behaviors of the family businesses. Specifically, it is explored how SEW preservation concerns may impact entrepreneurial orientation (EO) (chapter 2) and corporate social responsibility (CSR) (chapter 3) in family vis a vis non-family firms. The role of some important contingency variables (namely: environmental dynamism, hazards faced by the firm, family stage, or firm size) are also examined. These variables modulate the importance of family's SEW preservation preferences as the primary frame of reference in the management of the firm. Lastly, we address the question of how important SEW and its preservation is for family firms, and how its relevance varies across generations. More specifically in the last chapter of the dissertation (chapter 4), we analyze how the satisfaction with the progress of the company differs between family and non family firms. If, as argued above, SEW and its preservation is so important for family firms, the impact of pure economic outcomes (i.e. past financial performance) on the satisfaction of family firm owners should be less dependent of such economic performance.

Chapter 2: Entrepreneurial orientation (EO)

Entrepreneurship is crucial if a firm is willing to create new capabilities (Zahra, 1996; Zahra et al., 2004). The ability to renew a firm's product portfolio through radical innovation is important for growth and long term survival, even in industries that are not technology-intensive. While research on entrepreneurship in family firms is increasing (Carr and Sequeira 2007; Naldi et al., 2007; Kraus et al., 2012), the role of family involvement in the entrepreneurial process remains under-researched (Kellermanns and Eddleston, 2006). The interaction between family and business has a significant impact on the decision making process and entrepreneurial activities in family firms (Nordqvist et al. 2008). Moreover, recently, Miller (2011) stressed that the issue of context may

influence EO. He stated that, “a good way of making context precise is to investigate a particular organization type” (Miller 2011, p. 9). In this study, we meet the needs of this call by investigating family businesses as a particular organizational type and including environmental and organizational moderators because we believe the intersection between family business literature and entrepreneurship literature (Uhlener et al. 2012) could change depending on the context. The second chapter investigates the influence of non-economic drivers, represented by the SEW, on the entrepreneurial orientation (EO) of family firms. It will examine how SEW can influence family firms’ commitment to entrepreneurially-oriented activities, and how their level of commitment is moderated by the technological intensity of the sector and firm performance.

The socio-emotional wealth (SEW) pertains to the non-economic aspects of family firms and could reflect both positive and negative consequences of these non-economic aspects. The findings of the study show that EO varies among family firms depending on the context.

The basic notion pervading most research on family firms is that key managerial decisions are driven, irrespective of efficiency or economic instrumentality considerations, by a desire to preserve and enhance the family’s SEW, which becomes their main reference point (Gómez-Mejía et al. 2007). For that reason, we introduce SEW on the EO– family firms relationship because it provides insight into how family firms exploit their resources (Gómez-Mejía et al. 2011). Indeed, in private family firms, firm resources are often used inefficiently due to SEW considerations (Cruz et al. 2012). By their own nature, family firms are characterized by a wide range of emotions and interpersonal linkages which may engender parental altruism (Schulze et al. 2003a) or managerial entrenchment (Gomez-Meija et al. 2001). Thus, family firms often face inefficiencies as a result of their SEW preservation. Consequently, while EO appears to be good for business performance, it may lead to a loss of SEW for family firms. Thus, in spite of the potential economic benefits associated with EO, fear of losing SEW could temper the family firm’s investment in entrepreneurially-oriented activities. In other words, the fear of losing the SEW may convert the positive influence of familiness in a weakness due to the lack of entrepreneurial orientation (Gómez-Mejía et al., 2007).

Moreover, we explore how environmental and organizational conditions affect the link between family ownership and EO. For instance, technology-intense industries are dynamic environments in which firms need to be highly flexible and quick to implement change (Gómez-Mejía et al. 2013). Thus, to remain competitive, firms need to place continuous emphasis on EO (O’Brien 2003), which is therefore deemed essential to survival in technology-intense industries. Family firms in more technology-intense industries exhibit similar EO levels to those of non-family firms. In less technology-intense industries, however, family firms are significantly less entrepreneurially oriented than non-family firms, the reason being that, in technology-intense environments, failure to invest in

entrepreneurship is riskier than actually making the investment. So, for firms competing in technologically demanding industries, investment in entrepreneurship is the price they have to pay to remain competitive.

As regards the organizational conditions, we also suggest that threats to firm survival, and thereby to SEW, may lead family firms to pay more attention to EO in times of economic difficulties. We expected the reference point for family firms to shift from SEW protection to economic considerations in the face of economic difficulties. Nevertheless, the data does not support my previous expectation. The fact that we continue to find a lower degree of EO, irrespective of such problems signals that SEW protection is an enduring characteristic of family firms and significantly drives their decisions.

Chapter 3: Corporate social responsibility

Among the many issues addressed by family scholars, corporate social responsibility (CSR) has received increased attention lately, nourishing a growing stream of inquiry. This interest in CSR goes hand in hand with a growing interest on understanding whether the idiosyncratic nature of family businesses is reflected in how they relate to external environments; in other words, in how family principals manage the extended set of stakeholders that constitutes the firm. However, despite the efforts in disentangling the role of the family dimension in the adoption of social initiatives (i.e., actions that appear to further some social good, beyond the interest of the firm and that which is required by law [McWilliams and Siegel, 2001: 117]), there is a lack of agreement about whether family firms are more or less socially responsible.

The third chapter examines whether family firms are more socially responsible than their nonfamily counterparts and explores the conditions in which this difference in social behavior occurs. We argue that family firms, given their SEW protection bias, have a positive effect on social dimensions linked to external stakeholders, yet have a negative impact on internal social dimensions. Thus, family businesses can show a different behavior with different stakeholders and they may give preference to one SEW dimensions than others. In doing so, we expand stakeholder theory by providing fine-grained arguments and more evidence about the role of diverse principals in enacting varying responses to stakeholder pressures. So, we are combining the stakeholder theory of family businesses in terms of the creation and preservation of SEW, which brings the attention to the relevance of factors beyond simple financial objectives. The approach provides an integrated framework to explain the higher levels of social responsibility found in family businesses in external stakeholders and lower levels in the internal stakeholders, suggesting that family firms can simultaneously “be good and bad”.

The literature presents several reasons for the claim that family firms exhibit an innate motivation to satisfy the demands of external stakeholders. First, since social and reputational sanctions affect not only the company but also the family name (Adams, Taschian, & Shore, 1996; Dyer & Whetten, 2006; Ward, 1987), family firms should be expected to be particularly concerned about legitimacy and reputation. They are therefore more likely to be responsive to external claims to avoid being stigmatized as an irresponsible corporate citizen, even if there are no direct financial rewards for doing so. For this reason, Zellweger and Nason (2008) argued that the level of analysis when understanding stakeholder relationships in family businesses should include not only the individual and family but also the society at large.

Second, family firms have a natural tendency to create and protect long-term relationships with external stakeholders like suppliers and customers in order to accumulate social capital and reserves of goodwill (Carney, 2005). These relationships may also serve as a form of social insurance, protecting the firm's assets in times of crisis (Godfrey, 2005), so that when damage occurs, stakeholders are more likely to give the firm the benefit of the doubt. Third, because family firms often enjoy a long-time horizon and are not pressured by short term results, they are more likely to adopt patient strategies that involve building relationships with stakeholders (Miller & Le Breton-Miller, 2005).

One interesting issue that has seldom been explored is the family's reaction to key stakeholders (such as nonfamily shareholders) that may threaten family control. Consistent with the view that loss of control is associated with a loss of SEW, Martin, Makri and Gómez-Mejía (2011) argue that family owners are more likely to come into conflict with other shareholders (the internal ones) who may disagree with strategic decisions favored by the family.

We also suggest that institutional and organizational conditions act as catalysts in the relationship between firm type and corporate social responsibility (CSR). Moreover, while national standards and industry conditions influence the degree of CSR in nonfamily firms, these factors do not affect family firms. However, family firms' social activities are more sensitive to declining organizational performance.

Chapter 4: Family CEO Satisfaction with the firm

Lastly, studies in the strategic management and economics areas have shown that companies may strongly react to whether or not they have performed as expected. The behavioral theory of the firm uses aspirations as one of its key categories and argues that firms continually adjust their behavior in reaction to how satisfied they are with past performance (Lant and Shapira 2008). Prospect theory is one of the main behavioral utility models proposed as alternatives to the expected utility model of decision making under risk (Starmer, 2000). An important implication of prospect theory is

that the way economic agents subjectively frame an outcome or transaction in their mind affects the utility they expect or receive, and thus affect their overall satisfaction with the company.

In the last chapter, it is argued that family firms may react to past performance in a somewhat different way compared to nonfamily firms. The family business literature has long stressed the unique characteristics and peculiarities of family firm identity (Kepner, 1983; Kets de Vries, 1993; Westhead, et al., 2002). A common ground in this literature is the argument suggesting that the preservation of the nonfinancial aspects or “affective endowments” of family owners (SEW) is the most salient aspect of the family firm identity. As such, it is expected differences between family and non family firms in the general satisfaction with the firms. Prospect theory suggests that loss aversion would make the family reluctant to evaluate the satisfaction with the firm based just on the past financial performance, but to consider the non-economic factors (i.e. SEW). Thus, the impact of past financial performance on satisfaction in family firms is expected to be lower because for these firms the SEW or non economic goals are very important in the subjective evaluation of satisfaction.

A key concept in the family business is the generation involved in the business. When the SEW concept is projected on a generational perspective (Gómez-Mejía et al., 2007) it is emphasized that attitudes of family members may differ across generations, thus affecting their capacity to influence the company's strategic direction (Sonfield & Lussier, 2004). Dyer (1988) and McConaughy and Phillips (1999) note the differences between first and following generations in family firms. According to the SEW perspective, the degree of family identification, influence and personal investment in the firm changes as the company evolves across generations (Gersick et al., 1997; Schulze et al., 2003). In this vein, strategic choices are more likely to be driven by economic considerations in later generations (Gómez-Mejía et al, 2007; Chen et al, 2010). The emphasis on preserving the family's socioemotional wealth lessens as the firm moves through generations and that financial considerations become more important. Thus, in second or following generations, the presence of SEW, should be lower than in the first generation (Gómez-Mejía et al, 2007). For next generations, the SEW perspective is not as important as in the first generation, ownership structures tend to be more dispersed and they try to professionalize in order to keep competitive. Thus, we show that next generations will behave as non family firms because the presence of SEW is diluted over time and the level of general satisfaction will be more influenced by the past financial performance.

In a similar vein, threats to firm survival, and thereby to SEW, may lead family firms to pay more attention to economic goals in times of economic difficulties. Previous studies have largely neglected the role of contextual factors that amplify or mute the relationship between past performance and satisfaction. So, we will also analyze the effect of negative firm performance since

this is a key variable in understanding the decision making and it is shown to have an impact on family owners' SEW preservation goals (Gómez-Mejía et al., 2007). Thus, when performance is negative, firms may respond by giving more importance to economic goals but this is only supported for the second and next generation family firms. When these family firms are through economic difficulties, they will give more importance to economic performance to the fear of losing everything.

1.5 Structure of the thesis

The dissertation is structured as follows: Firstly, we present the second chapter examining how socio-emotional factors can influence family firms' commitment to entrepreneurially oriented activities, and how such effect is moderated by the industry's technological intensity and the family firm's performance. Secondly, we empirically study whether family firms behave more social responsibly than their non-family counterparts, and explores under which conditions this difference in social behavior changes. More specifically, we argue that family firms, given its strong emphasis on SEW elements, have a positive effect in social dimensions linked to external stakeholders and yet, they have negative impact on internal social dimensions. Thirdly, we test empirically the contrasting arguments developed regarding the effect of past performance on CEO satisfaction in family and non-family firms and within family firms, taking into account also the performance context. Lastly, we report and discuss the results, outline the implications of our study and conclude with a general assessment of the limitations and avenues for future research.

Table 1: Chapter summary

Authorship	Research gap	Main theoretical constructs	Methodology and Sample	Contributions	Publication
Chapter 1: Entrepreneurial orientation in family firms: the moderating role of technological intensity and performance					
Lucía Garcés-Galdeano Martín Larraza-Kintana Carmen García-Olaverri Marianna Makri	EO-FF relationship Moderating role of high tech industries and economic downturns	SEW framework Contingency approach	Treatment regression model. 401 publicly- and non-publicly-traded industrial Spanish firms.	How family ownership affects EO and how the technological intensity and any economic difficulties facing the firm may moderate that relationship. Explains heterogeneity among family firms	Accepted at: International Entrepreneurship Management Journal DOI 10.1007/s11365-014-0335-2
Chapter 2: Are Family Firms Really More Socially Responsible?					
Lucía Garcés-Galdeano Cristina Cruz Martin Larraza-Kintana Pascual Berrone	CSR-FF relationship moderating role of institutional and organizational conditions	SEW framework Stakeholder theory Institutional and Contingency theory	598 European listed firms during the whole period 2001–2010	The role of family firms in terms of CSR expand stakeholder theory. SEW protect FF for the external sources	Published in: ENTREPRENEURSHIP THEORY and PRACTICE, Vol:38, issue:6
Chapter 3: Family CEO satisfaction: the role of non-economic goals.					
Lucía Garcés-Galdeano Martín Larraza-Kintana Ignacio Contín-Pilart Cristina Cruz	Assessment of importance of non-economic in family firm satisfaction with the firm, and evolution of this importance over generations and performance context.	SEW framework Prospect theory Contingency approach	1500 Spanish small and medium high technological firms.	How economic and non-economic goals are balanced. Heterogeneity among family firms. How the balance changes facing economic difficulties.	Unpublished manuscript

CHAPTER II: ENTREPRENEURIAL ORIENTATION IN FAMILY FIRMS: THE MODERATING ROLE OF TECHNOLOGICAL INTENSITY AND PERFORMANCE

2.1 Introduction

Entrepreneurship is crucial for firms wishing to create new capabilities (Zahra, 1996; Zahra et al., 2004). Even in less technology-intense sectors, the ability to renew its product portfolio through radical innovation is important for a firm's growth and long-term survival. According to Miller (1983:771), an entrepreneurial firm is one that "engages in product-market innovation, undertakes somewhat risky ventures and is first to come up with *proactive* innovations, beating competitors to the punch". Further studies have shown that entrepreneurship increases revenue, empowers employees and improves profitability (Barrett and Weintin, 1998; Lumpkin and Dess, 1996; Zahra, 1996). The centrality of entrepreneurship to firm growth and performance has given rise to a growing area of research focused on entrepreneurial orientation (EO) which includes the strategy-making practices used to identify and pursue opportunities arising in the environment (Dess and Lumpkin, 2005). In its classic conceptualization, EO is a combination of three dimensions: innovativeness, proactiveness and risk-taking (Covin and Slevin, 1989; Covin and Wales, 2012; Zahra and Covin, 1995), although some authors, such as Lumpkin and Dess (1996) and Lumpkin et al. (2009), propose autonomy and competitive aggressiveness as further critical dimensions of EO. While the positive relationship between EO and performance, especially in technology-intense settings, appears firmly established (Rauch et al., 2009), there is room for more research on why some firms are more entrepreneurially-oriented than others.

Prior research has stressed that the enhancement of EO is crucially dependent on the preferences and goals of those who control the firm and therefore have the power to influence firm decisions; namely, the owners and managers (Fini et al., 2010; Hornsby et al., 2002; Zahra and Filatochev, 2004; Zahra et al., 2009). A very important type of controlled firm are family firms (Colli et al., 2003; Habbershon and Williams, 1999; Habbershon and Pistrui, 2002; Shleifer and Vishny, 1986).

While research on entrepreneurship in family firms is increasing (Carr and Sequeira 2007; Naldi et al., 2007; Kraus et al., 2012), the role of family involvement in the entrepreneurial process remains under-researched (Kellermanns and Eddleston, 2006) and there are two contradictory streams of thought within the extant literature. While some studies depict family firms as a context in which entrepreneurship flourishes as a result of kinship ties and the long-term nature of the business (Ward, 1987; Zahra, et al., 2004; Zahra, 2012), others view them as too conservative and inflexible to take the risk associated with entrepreneurship and innovation (Autio and Mustakallio, 2003; Morris, 1998; Zahra, 2005; Chrisman and Patel, 2012; Nieto, Santamaria and Fernandez, 2015). Simply put, there is a lack of consensus on whether family-firm characteristics help or hinder entrepreneurial activities (Short et al., 2009). Perhaps the reason behind the contradictory findings is the relative absence of socio-emotional wealth (SEW) considerations as a key factor in EO. Accordingly, this study uses the lens provided by the SEW framework (Gómez-Mejía et al., 2007; Berrone et al., 2010) to explore and directly compare family and non-family firms' EO levels, and proposes SEW preservation as the primary reason for the greater reluctance to undertake EO activities found in family firms in relation to non-family firms.,

Gómez-Mejía et al. (2007) defined socio-emotional wealth (SEW) as the “affective endowment” of family-firm owners, including the family’s desire to wield power and influence, maintain clan membership within the firm, appoint trusted family members to key posts, retain a strong family identity, continue the family dynasty, etc. They argued that family firm owners’ decisions regarding firm strategy are driven by a preference to preserve SEW. This urge is independent of efficiency or economic instrumentality considerations, such that SEW preservation takes priority over alternatives that could produce better economic outcomes. Research on family firms has firmly established SEW preservation as a key driver in a variety of decision contexts including R&D, environmental investments, compensation, internationalization, diversification and earnings management (Berrone et al., 2010; Chrisman and Patel, 2012; Gomez-Mejía et al., 2011; Fernandez, and Nieto, 2005; Sanchez-Bueno and Usero, 2014; Gómez-Mejía et al., 2010) but it has not, to date, been linked with EO.

While SEW preservation is important to family firms, this does not rule out the consideration of economic factors in their decision-making. The literature on socio-emotional wealth suggests that family firms are loss averse and, thus, would be willing to give up control if failure to do so would threaten firm survival (Chrisman and Patel, 2012; Gómez-Mejía et al., 2007). Hence, while SEW preservation is an ongoing concern for family firms, its importance varies with the competitive environment (i.e. high technology industries) and changing organizational characteristics (i.e. fluctuations in firm performance). More specifically, the issue of SEW preservation will be less crucial in family firms operating in more technology-intense sectors. Innovation and entrepreneurship are pivotal in high-tech industries and investment in these areas is widely considered to be a key factor in gaining and sustaining a competitive advantage (Gómez-Mejía et al., 2013). In such a context, a lack of entrepreneurial orientation may constitute a risk and threat to firm survival. Thus, in terms of EO levels, we expect to find a much smaller gap between family and non-family firms in high-tech than in low-tech industries. Also, if a family firm’s survival is threatened by deteriorating performance, its owners will be more willing to cede control and invest in entrepreneurial activities that might improve their competitive position. Hence, we expect economic downturns to shift the balance towards EO for family firms. Simply put, the pivotal point of reference for family-firm owners will shift from SEW preservation to economic considerations in a context of economic hardship.

This paper makes several contributions to the literature. Firstly, it employs the SEW framework to enrich the debate on how family ownership affects EO and thereby paper increases our knowledge regarding the preferences of family owners with respect to investment in entrepreneurial activities. Secondly, using a contingency approach, it examines how the technological intensity of the industry and any economic difficulties facing the firm may moderate the gap in EO activity between family and non-family firms. Third, the paper adds to the growing literature on SEW preservation as a driving force of strategic decisions in family firms, which may weaken in response to contextual factors (Gómez-Mejía et al., 2010; Berrone et al., 2010). While SEW preservation is an unquestionable goal in family firms, a key ongoing debate in the family firm literature revolves around how these firms balance economic against non-economic goals. The results of this paper may provide additional evidence to help understand this balancing act, while at the same time responding to the recent call for the consideration of contextual

factors in explaining heterogeneity among family firms (De Massis et al., 2013). The paper enhances the existing literature by considering a representative sample including both publicly- and non-publicly-traded industrial Spanish firms.

The paper is structured as follows: after a brief review of the literature on entrepreneurial orientation and family firms, we develop our hypotheses and outline our research methods. We then report and discuss our results, outline the implications of our study, and conclude by indicating its limitations and suggesting avenues for future research.

2.2 Theory and Hypotheses

An entrepreneurial orientation appears an unavoidable option for firms hoping to prosper in competitive business environments (Eggers et al., 2013). While the implications of entrepreneurial processes for firm growth and performance have become the topic of many studies (Lumpkin and Dess, 1996; Rauch, 2009; Zahra et al., 1999), little consideration has been given to other factors (Wales et al., 2013), such as the preferences and goals of key decision makers (e.g. Fini et al., 2010).

The organizational form of family firms is unique, in that they are likely to be guided by a very particular set of motives including the preservation of SEW, and the stock of affect-related value that the family has invested in the firm (Gómez-Mejía et al., 2007; Xi et al., forthcoming). The basic notion pervading most research on family firms is that key managerial decisions are driven, irrespective of efficiency or economic instrumentality considerations, by a desire to preserve and enhance the family's SEW, which becomes their main reference point (Gómez-Mejía et al., 2007). The model predicts that family-firm owners are "loss averse" with respect to SEW, that is, rather than see their SEW diminish, they will opt for choices that might threaten their economic wealth. Previous research has documented SEW preservation as a key driving force in family firms, influencing decisions in areas such as R&D, Corporate Social Responsibility, compensation, diversification or earnings management (Chrisman and Patel, 2012; Cruz et al., 2014; Gomez-Mejía et al., 2011; Gómez-Mejía et al., 2010).

It is our contention that SEW preservation motives also drive the level of EO held by family firms. While EO appears to be good for business performance, it may lead to a loss of SEW. EO entails promoting innovation, taking more risks, being more proactive and aggressive in the market in order to stay ahead of the competition, all of which is usually accompanied by greater employee autonomy. More often than not, these activities involve new projects and thus the need to capture new funds and recruit outside talent. For innovative purposes, for instance, firms often need not only external funds but also fresh talent to bring in new ideas. More specifically, studies have found that a stronger presence of non-family managers and additional financial resources are crucial to secure continued entrepreneurship (Salvato, 2004; Steier, 2003; Carney, 2005). While all these actions can benefit firm performance in the long run, they also threaten the family's ability to maintain control. Thus, while the presence of non-family members adds new perspectives and ideas, it challenges the family's ability to exercise control. Furthermore, despite

the importance of external capital for firm growth, family firms prefer to avoid external control by financial institutions (Shulze et al., 2003a). EO activities may also have a negative effect on key elements of SEW, like affective commitment and family cohesion (Marchisio et al., 2010). Thus, in spite of the potential economic benefits associated with EO, fear of losing SEW could temper the family firm's investment in entrepreneurially-oriented activities. We therefore expect family firms to present lower levels of EO than their non-family counterparts. Formally stated, our first hypothesis is as follows:

Hypothesis 1: Family firms are less entrepreneurially oriented than non-family firms.

2.2.1 Technological intensity, Past Performance and EO

While the level of EO in family firms is expected to be lower, on average, than that of non-family firms (as per H1), it may vary with the technological intensity of the sector. Technology-intense industries are dynamic environments in which firms need to be highly flexible and quick to implement change (Gómez-Mejía et al., 2013). Thus, to remain competitive, firms need to place continuous emphasis on EO (O'Brien, 2003), which is therefore deemed essential to survival in technology-intense industries. As mentioned earlier, EO carries a risk of SEW loss for the family firm, but, in technology-intense industries, failure to invest in new projects may threaten firm survival and loss of SEW altogether. Family control of the firm, a cornerstone of family SEW, may be at risk if the firm engages in EO because it may involve hiring outside talent and finding external capital and resources (Gómez-Mejía et al., 2011). Nevertheless, family members will be willing to forfeit a degree of control if acting otherwise is likely to threaten the firm's survival (Cruz et al., 2014; Gómez-Mejía et al., 2007). When survival is threatened, family goals and economic goals tend to converge and families will give more salience to economic factors (Chrisman and Patel, 2012). Therefore, given that EO appears to be instrumental for firm long-term survival in technology-intense sectors (Gómez-Mejía et al., 2013), we expect family firms operating in such sectors to be more willing to relinquish some control by investing in EO in order to protect the firm from competitors. Thus, we expect to find a narrower gap between family and non-family firms in technology-intense industries. Formally stated, our second hypothesis is:

Hypothesis 2: The EO gap family and non-family firms is smaller in technology-intense industries.

In a similar vein, threats to firm survival, and thereby to SEW, may lead family firms to pay more attention to EO in times of economic difficulties. The behavioral agency model (Wiseman and Gómez-Mejía, 1998) suggests that decision-makers are loss averse and that losses are gauged in a subjective framework depending on the utilities that are most critical to the parties involved. When the survival of a family firm is under threat, and there is a danger of SEW being lost altogether, the owners will shift their focus towards an economic point of reference. Gómez-Mejía et al. (2007), for instance, found that family-owned olive oil mills were more likely to join coops (and suffer losses in SEW by ceding control to the

coop) under conditions of low performance. Similarly, Gómez-Mejía et al., (2010) report that publicly-traded family-owned firms are more likely to diversify (and dilute family control) when ROA is poor. In other words, when performance deteriorates, total losses in terms of earnings and SEW are possible. If the firm has to file for bankruptcy, the family will lose, not only income, but also its accumulated SEW. Additionally, Chrisman and Patel (2012: 1) found that “when performance is below aspiration levels family goals and economic goals will tend to converge. In this situation R&D investments of family firms are expected to increase and the variability of those investments decrease, relative to non-family firms.” Based on these findings, we expect that, when declining performance leads to economic difficulties, the pivotal reference point for family owners will shift from SEW preservation to economic considerations. In terms of EO, we expect that the family will be more willing, in times economic difficulties, to engage in entrepreneurially-oriented activities in an effort to reverse their fortunes. Therefore, under economic difficulties, the EO of family firms will be more similar to that of non-family firms. Formally stated, our third hypothesis is:

Hypothesis 3: The EO gap between family and non-family firms narrows in times of economic difficulties

2.3 Methods

2.3.1 Data collection and sample

The above hypotheses are tested on a sample of 401 plants in diverse manufacturing industries. The data were obtained by means of a series of in-depth personal interviews conducted in 2007, as part of a research project directed towards the analysis of the organizational practices of Spanish manufacturing firms with more than 50 employees. To ensure the representativeness of the sample, the units interviewed were selected following a stratification process based on industry, size and region. The survey was designed to collect information on production, technology, product quality, human resource policy, internal organization, relationships with suppliers and customers, and included a series of questions on general information about the plant. It was conducted during 2007 by CIES S.L., an experienced opinion and marketing research firm. In style, the survey is very similar to the one used in Osterman (1994), which analyses different aspects of internal labour markets and work organization in US firms.

The personal interviews were in all cases with company managers (general manager, production manager or human resources manager) to guarantee the respondent had the required knowledge about the topics covered in the questionnaire. This procedure, known as the “key informant approach” has been used in other EO studies, such as Kraus et al. (2012). In many plants, several managers were interviewed in order to ensure adequate responses to the specific sections of the survey. In this way, concerns for common method bias are minimized. The questionnaires were completed in approximately 45-minute personal interviews. All of the interviewers had previously received specific information regarding business issues. In many cases, more than one visit was required in order to complete the questionnaire.

The result is a unique dataset that provides an exhaustive picture of the internal dimensions of Spanish firms. The survey contains information from 322 medium-sized establishments (between 50 and 199 employees) that employ 31,384 employees, and 79 large-sized establishments (more than 200 employees in each plant) representing 49,453 employees.

2.3.2 Variable measurement

Dependent Variable

Entrepreneurial Orientation. EO represents policies and practices providing the basis for entrepreneurial decisions and actions. It has been conceptualized and measured both as a unidimensional and a multidimensional construct (Covin and Wales, 2012). As noted by Wales and colleagues (2013: 375), “the choice between unidimensional versus multidimensional conceptualizations should be driven by the research question being investigated.” Our focus is on differences in EO between family and non-family firms. That is, we are interested in overall EO rather than in specific dimensions. As such, we view EO as a unidimensional (e.g. Khandwalla, 1977; Miller, 1983) organizational-level construct (Rigtering et al., 2014). We espouse the reasoning of Basso et al (2009), who argue that, while the unidimensional view of EO focuses on agents at the top of the organization, the multidimensional view broadens the focus to potential “key players” at lower levels, such as middle management. This more traditional unidimensional view is more in keeping with our focus, which is on the controlling families .

Consistent with this classic unidimensional view of the EO construct, we measure EO using ten items originally developed by Covin and Slevin (1989) and later adapted by Zahra et al. (2004) to measure entrepreneurial orientation. This measurement scale has been successfully used in a number of empirical studies (Covin et al., 2006; Green et al., 2008; Escribá-Esteve et al., 2008) some in the family firm context (e.g. Kellermanns and Eddleston, 2006; Naldi et al., 2007; Cruz and Nordqvist, 2010). Following previous research, and consistent with the original conceptualization of the EO construct (Basso et al., 2009; Covin and Wales, 2012; Wales et al., 2013), EO is treated as a single construct based on the aggregated responses to ten questions covering topics such as tolerance for high-risk projects, the pursuit of long-term goals and strategies, etc. The complete list of items is provided in Appendix 1. A 5-point Likert scale was used (1=totally disagree, 5= totally agree). Cronbach’s alpha for this construct is 0.74.

Independent Variables

Family firm. The literature on family firms is somewhat disperse and it is difficult to find a precise consensus definition of the term. However, the typical family firm has been characterized as an organization controlled, and usually managed, by multiple family members (Shanker and Astrachan, 1996; Lansberg, 1999), often spanning several generations (Anderson and Reeb, 2003; Gómez-Mejía et al., 2007). McConaughy et al. (1998), for example, consider a family firm any company run by a founder or

member of the founding family. Similarly, Anderson and Reeb (2003), Cronqvist and Nilsson (2003), Faccio and Lang (2002), La Porta et al. (1999), Smith and Amoako-Adu (1999), Barth et al. (2005) consider a family firm as any business in which a founding family or founding individual owns a fraction of the company or serves on the board of directors. In these categorizations, the cut-off points for ownership percentage vary, often depending on whether the firm is publicly owned or not. Villalonga and Amit (2006) examine a wide variety of definitions, encompassing different levels and generations of individual- or family-ownership and/ or management. Other studies consider involvement by multiple members of the same family over time, counting as family firms only those in which several family members are acting as owners or managers of the business. In our study, the term is defined as any firm where the family directly or indirectly controls more than 50 percent of the shares if the company is privately held, or more than 10 percent of the shares if the company is publicly traded. 54.59 percent of the firms in our sample meet this definition.

Technological intensity is a dummy variable that takes a value of 1 when the firm belongs to an industry considered by the Spanish bureau of statistics (Instituto Nacional de Estadística) as a medium-high or high-tech industry, and 0, otherwise. The criteria used by the Spanish bureau of statistics to determine the technological intensity of a given industry, as well as the resulting classification, are fully consistent with international standards. Industries rated as medium-high or high in terms of technological intensity are: pharmaceuticals; computers, electronic and optical products; air spacecraft; chemicals; weapons and ammunition; electrical equipment; machinery; motor vehicles; transport equipment excluding ships, boats, excluding air and spacecraft; medical and dental instruments. The value of the technological intensity variable for the firms that belong to the medium-low and low-technology industries is zero. 28.7% of the firms in the sample belong to technologically intense industries while the remaining 71.3% do not.

Economic difficulties. Whether the firm is facing economic difficulties or not is captured through a dummy variable that takes a value of 1 if, during the three years prior to the survey, the firm made use of early retirements or fixed contract termination to adjust the size of the workforce, or if production or investment has fallen greatly or to some degree over the last three years. As proposed and supported by the evidence, the first two actions are viewed as decisions firms take in the face of a performance downturn (Ahmandjian and Robinson, 2001; Greenhalgh et al., 1988; Requejo, 1996). For example, Davidson et al. (1996) found that early retirement programs are likely to be preceded by deteriorating financial conditions. The second two variables are directly linked to firm performance. Production or investment below the levels of the past three years is a signal of declining performance and consequently economic difficulties. A three year decline in production figures is the direct result of a decline in the demand of the products produced by the plant. If production declines, sales figures also decline and that has an immediate negative impact on profits. Consequently, a decline in production would signal economic difficulties. Besides, a reduction in investments will decrease future profits (Baumol and Wolff 1983; Grazzi et al., 2013; Pakes and Griliches, 1984, Weill, 1992) but also the economic difficulties faced by the company may have a negative impact on investments (Heshmati and Lööf, 2008) since in a context of reduced performance and profits, the resources available for investment decrease. Hence, when a plant observes that investment has decreased it may be a clear signal that the firm is facing economic difficulties. Finally,

it has to be noted that in previous research, a three-years observation period is considered sufficient to capture declining firm performance (Bruton et al., 2003; Morrow et al., 2004).

Firm size. Firm size may also influence corporate entrepreneurship. For example, larger firms might have more organizational slack and thereby more resources to invest in entrepreneurial activities (Rauch et al., 2009; Galve y Salas, 1996). The questionnaire asked the respondents to indicate their firm's size category (1= 50-199; 0= more than 199 workers) . EUROSTAT standards determine firm size based on the number of employees.

Age. A common control variable in family firm research is firm age, due to its ability to capture differences in behavior and performance due to culture and generation issues. Older plants are more likely to be run by the founder's heirs, while young plants will be more likely to be managed by the founders. Firm age was computed as the number of years that had elapsed be the foundation of the plant or facility and 2007, the year the survey was administered.

Given that the firm's decision to engage in EO may be influenced by the competitive environment (Miller and Friesen, 1983; Zahra, 1996), we include a final control variable labeled *intensity of competition*, a dummy variable that takes a value of 1 if the facility is considered to be operating under very intense competition and 0 otherwise. 36 percent of the firms in the sample consider their competition to be very intense.

2.3.3 Methodological approach

First, we perform an OLS regression analysis to compare the entrepreneurial orientation of family versus non-family firms (hypothesis 1). The testing of Hypotheses 2 and 3 require the introduction of interaction terms, where the family firm dummy is interacted with technological intensity and economic difficulties. Continuous variables are centered in order to avoid multicollinearity. Robust standard errors are used in all our multivariate estimations.

2.4 Results

The means, standard deviations, and zero-order correlations are shown in Table 2.1.

Table 2.1: Means, standard deviations, and zero-order Correlations

	Mean	Std. Dev.	EO	1	2	3	4	5	6
EO	3.26	0.4961							
1. Family firm	0.55	0.4985	-0.1358**	1					
2. Size	0.47	0.4998	-0.1828 ***	0.0616	1				
3. Competitive intensity	0.36	0.4803	0.0568	0.0099	-0.0715	1			
4. Age	42.47	30.361	0.0379	0.0332	-0.0744	0.0076	1		
5. Technological intensity	0.29	0.4528	0.0763	-0.1150*	-0.0354	0.0081	-0.0084	1	
6. Economic difficulties	0.61	0.4873	-0.0071	-0.0597	-0.0967*	0.1208*	0.0695	0.0019	1

+: $p < 0.1$; *: $p < 0.05$; **: $p < 0.01$; ***: $p < 0.001$

54.59 percent of the sample firms are family firms and the remaining 45.41 percent are non-family. The mean value of entrepreneurial orientation is 3.26 (on a scale of 1 to 5) while that of the generation proxy is 42.47 years. As can be seen in from Table 2, the relationship between EO and the family firm dummy is negative and significant. Thus, in line with our first hypothesis, family firms are less entrepreneurially oriented than non-family firms. Also, the relationship between firm size and EO is negative and significant, suggesting that smaller firms are, on average, less entrepreneurially oriented. Without stating a formal hypothesis, we were interested in exploring variations in entrepreneurial orientation levels between family Vs non-family firms across firm size categories. Our findings indicated greater differences in EO between family and non-family firms in the medium size category. The average EO score is 3.245 for non-family firms and 3.107 for family firms. Even in the large size category, however, non-family firms are the more entrepreneurially oriented (3.402 versus 3.287).

To assess the statistical significance of these differences, we ran a two-factor ANOVA. The results showed that, while the mean differences mentioned above are statistically significant, the interaction term is not, which suggests that differences in EO between family and non-family firms do not vary with firm size . Figure 1 depicts the EO levels of family and non-family firms in the large and medium firm-size categories. It shows that non-family firms have higher EO levels. The two lines are almost parallel, indicating that mean differences in EO levels between family and non-family firms are stable across firm size levels.

Figure 1: Family control, firm size, technological intensity and EO levels

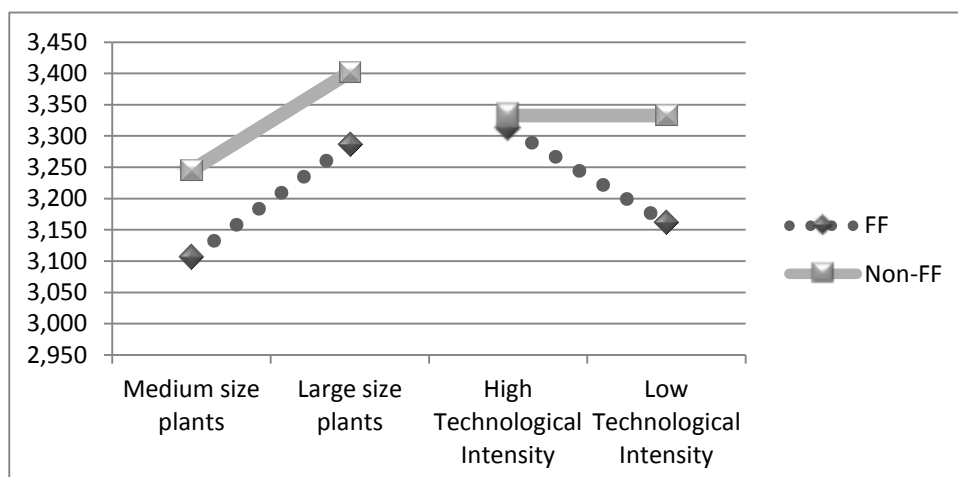


Table 2.2 shows the results of the OLS regression estimated to test Hypothesis 1. As can be seen, the effect is negative and significant in all four models summarized in the table, thus providing support for Hypothesis 1. Firm size is also significant, in that medium-sized firms are less entrepreneurially oriented than larger firms, in line with findings by previous studies of the role of firm size in EO (Rauch et al., 2009).

Table 2.2: Results of OLS regression for Hypothesis 1, 2 and 3

	EO (Model 1)	EO (Model 2)	EO (Model 3)	EO (Model 4)
Main effects				
Family firm (H1)	-0.1105 **	-0.1711 **	-0.1146	-0.1773 *
Size	-0.2186 ** *	-0.2274 ***	-0.2187 **	-0.2276 ***
Competitive intensity	0.0621	0.0609	0.0624	0.0615
Age	0.0005	0.0006	0.0005	0.0006
Technological intensity	0.0946 +	-0.0078	0.0944 +	-0.0081
Economic difficulties	-0.0367	-0.0415	-0.0403	-0.0469
Interaction effects				
Family firm x Technological intensity (H2)		0.2112 +		0.2114 +
Family firm x Economic difficulties (H3)			0.0064	0.0096
Number of obs	377 **	377 ***	377 **	377 ***
F	4.31 *	4.66	3.74 *	4.08
R-squared	0.0634	0.0724	0.0634	0.0724
Root MSE	0.48414	0.48245	0.4848	0.4831

Significance levels are based on a two-tailed test, +: $p < 0.1$; *: $p < 0.05$; **: $p < 0.01$; ***: $p < 0.001$

Table 2.2 also includes the interactions for testing Hypotheses 2 and 3 (Models 2, 3 and 4). Variance inflation factors indicate that our estimations are free of any multicollinearity problems. With hypothesis 2, we seek to explore how entrepreneurial orientation varies between family Vs non-family status and with the technological intensity of the sector . A look at the mean EO scores for family and non-family firms as a function of technological intensity shows that differences between family and non-family firms in EO are greater in sectors that rate low in technological intensity (3.333 versus 3.162). even in technology-intense sectors, however, non-family firms are the more entrepreneurially oriented (3.333 versus 3.312), although, in this case, the differences are non-significant. These relationships are reflected in Figure 1.

The interaction of family and technological intensity is positive and significant, indicating that, as advanced in Hypothesis 2, the EO of family firms is greater in more technology-intense industries. The interaction of family firm with economic difficulties, on the other hand, is non-significant. Thus, we fail to find support for Hypothesis 3.³

2.4.1 Robustness checks

Family firm definition

Consistent with the vast majority of prior research, our definition of family firm takes ownership into account. However, in addition to ownership, family control of the firm may also manifest in family members holding key management positions. We first tested to see whether the results vary with the use of a more restrictive definition of family firm, which, besides ownership, considers the management dimension. This new variable took value of 1 if, in addition to the minimum ownership requirement, there were family members on the firm management team and/or board of directors. This was predominantly the case , suggesting that family ownership is closely linked to family management, and therefore a single variable (in this case ownership) correctly identifies the family firms in our sample. As can be seen in the results of the first model, summarized in Table 2.3, the results do not differ from those of the previous analyses, and thus support hypotheses 1 and 2. Procedurally, this model replicates the estimation of model 4 in Table 2.3.

³ To rule out potential problems with common method bias, we ran the Harman's single factor test. The shared variance among self-reported measures is 0.23, which is far from the 0.50 threshold. In addition, as can be seen from Table 2, self-reported measures do not exhibit high correlations. Hence, we can consider our results and conclusions free of common method bias.

Table 2.3: Results with an alternative definition of family firm and endogeneity of family firm for Hypothesis 1, 2 and 3

<i>EO Equation</i>	EO (alternative family) OLS	EO (endogeneity) Treat. Reg.	EO (endogeneity) Treat. Reg.
Size	-0.1887 *	-0.1579 *	-0.1676 **
Competitive intensity	0.0652	0.0598	0.0609
Age	0.0003	0.0008	0.0010
Technological intensity	-0.0993	0.0548	-0.0549
Economic difficulties	-0.0253	-0.0538	-0.0807 *
Family firm	-0.1895 **	-0.4684 **	-0.5600 ***
Family firm x Technological intensity	0.3058 *		0.2224 **
Family firm x Economic difficulties	-0.0335		0.0359
<i>Selection equation</i>			
Size		0.2383	0.2367
Competitive intensity		0.0301	0.0297
Age		0.0032	0.0032
Technological intensity		-0.2632 +	-0.2612 +
Economic difficulties		-0.0767	-0.0777
Unions		0.0303	0.0313
Outside		0.7078 ***	0.7088 ***
Number of obs=	311	372	372
F	3.29 **		
Wald chi2(5)		26.31 ***	32.85 ***
Log pseudolikelihood		-493.46871	-491.44132

Significance levels are based on a two-tailed test, +: p<0.1; *: p<0.05; **: p<0.01; ***: p<0.001

2.4.2 Endogeneity

The literature comparing family and non-family firms suggests that family control of the firm may be an endogenous variable. Failure to control for the potentially endogenous character of the family-firm dummy may lead to biased results. Following Villalonga and Amit (2006) and Gómez-Mejía et al (2010), we address the endogeneity concern by estimating a maximum likelihood treatment effect model. The treatment effect model considers the impact of an endogenously-chosen binary treatment on another endogenous continuous variable, conditional on two sets of independent variables. In order to meet the exclusion restriction necessary for identification (Wooldridge, 2002), two variables not included in the OLS regression are added to the selection equation in the treatment model. These variables are the influence of unions on workers and whether the firm has production plants in foreign countries (outside Spain). The second of these variables was correlated with family firm status and uncorrelated with the residuals of the EO equation; in other words, it acts as an instrument for family firm status.

Table 2.4 summarizes the results of the treatment effect model. As can be seen, the influence of family control on EO is consistent with the previous OLS models, thus providing further support for Hypothesis 1. This alternative estimation procedure also offers support for Hypothesis 2. Hence, our findings and conclusions remain unchanged.

2.5 Discussion and Conclusions

Examining the data through a SEW lens, this paper explores differences in EO between family and non-family firms. As hypothesized, family firms are found to be less entrepreneurially oriented than non-family firms due to the pervasive influence of SEW protection motives in their decision making. We argue that the SEW framework is an appropriate conceptual lens through which to increase understanding of the EO phenomenon in family firms and we are confident that the formal introduction of the SEW perspective to the analysis of the entrepreneurial behavior of family firms can help to clarify the current conflicting results regarding the connection between family control of firms and the promotion of entrepreneurial activities.

While the results of this study are promising, more research is needed to fully incorporate the SEW perspective in the EO field. We therefore encourage future studies aimed at further clarification of the role of SEW and the disentanglement of SEW protection motives from other intervening factors. One factor that may help to explain differences in EO levels across firms is managerial capabilities and talent. More specifically, the often claimed reluctance of family firms to tap the external managerial talent pool (e.g. Chrisman and Patel, 2012; Gómez-Mejía et al., 2003), sometimes motivated by SEW protection aims, may be an added deterrent to the implementation of EO practices by family firms. Furthermore, family-specific factors such as family functionality (Gudmunson and Danes, 2013) may also play a role. Family functionality or satisfaction with family relationships may have a significant influence on the feelings and behavior of family members, either facilitating or impeding the implementation of several types of strategic decisions, such as those pertaining to EO. The way in which family functionality interacts with SEW to determine strategic decision making and, particularly, firm-level entrepreneurship constitutes an interesting area of inquiry.

Extensions should also consider the decisive role of moderating factors (Rauch et al., 2009). We have taken some initial steps in this direction by examining the moderating role of the technology intensity of the sector and firms' economic difficulties. Consistent with our hypothesis, family firms in more technology-intense industries exhibit similar EO levels to those of non-family firms. In less technology-intense industries, however, family firms are significantly less entrepreneurially oriented than non-family firms, the reason being that, in technology-intense environments, failure to invest in entrepreneurship is riskier than actually making the investment. So, for firms competing in technologically-demanding industries, investment in entrepreneurship is the price they have to pay to remain competitive. Indeed, family firms in this setting are more willing to sacrifice a portion of their SEW in order to keep their economic returns to a

certain (aspirational) level. In less technology-intense sectors, however, where investment in EO is less crucial for firm survival, and the preservation of SEW therefore weighs more heavily.

Our analyses did not provide support for the moderating effect of the economic difficulties variable. We expected the reference point for family firms to shift from SEW protection to economic considerations in the face of economic difficulties. The fact that we continue to find a lower degree of EO, irrespective of such problems signals that SEW protection is an enduring characteristic of family firms and significantly drives their decisions. These findings are of great relevance for family firm research. Extant research has, in line with our finding of lower EO in family firms, documented SEW protection as a major driver in the decision-making process of family firms. However, economic goals may sometimes conflict with the desire to protect SEW. Our study may provide evidence to help discern how family firms balance these two goals (i.e. economic and non-economic) under different circumstances. Our data suggest that, in technology-intense industries, the pressure to remain competitive propels family firms towards greater investment in EO activities as opposed to greater SEW protection. However, when performance declines, and firm survival may be in jeopardy, thus threatening SEW, the preference for EO fades. Prior corporate-strategy research suggests that, when faced with a performance downturn, firms may be best advised to focus scarce resources on core activities with more certain returns (Starbuck and Hedberg, 1977) and postpone any new strategic initiatives (D'Aveni, 1989). March and Shapira (1987, 1992) indicated that, in the event of declining performance, firms shift their attention from aspirations to survival, prioritize risk over potential returns and resort to more conservative strategies. While EO may render positive results, it also involves potential costs that may act as a deterrent to family businesses facing difficult times. Hence, in circumstances when survival is at stake, family firms do not necessarily shift their concerns from SEW to economic issues, but may persist in protecting their SEW by opting for actions that preserve the family's control and by sticking to known paths rather than attempting new activities that could be more efficient in the long run but also more costly. Our results would suggest that economic reference points are more salient when the threat to firm survival in the long term has to do with environmental characteristics (i.e. the technological intensity of the sector) and less relevant when the threat stems from the firm itself (i.e. economic difficulties). Clearly, however, there is a need for more research on how economic and non-economic goals are balanced in situations of performance decline, when firm, and by extension, family survival may be at stake.

Implications for managers

Our study offers several suggestions for family-firm managers. From a purely economic standpoint, it appears that family firms can benefit by increasing investment in EO (Rauch et al., 2009), this is particularly true in the case of firms operating in technology-intense sectors, where EO is fundamental to survival. Since increasing emphasis on EO may place SEW in jeopardy, families should seek a balance between maximizing economic performance and preserving their identity (i.e. SEW). Since under-investing in EO can lead to opportunity loss and lack of competitiveness, the challenge for controlling families is to increase EO while preserving SEW. It is important to note that SEW can be maintained, or even enhanced, through direct and complete ownership of the company (i.e. 100% ownership). It is not the only way to

preserve the family's SEW, however. Actions that enhance the company's image and legitimacy, reinforce family identity, or guarantee the family dynasty may also serve SEW-protection objectives when economic circumstances recommend them to cede a portion of their ownership.

Limitations and Future Research

Like most research, this paper has its limitations. Firstly, the data were collected in 2007, before the current economic crisis unraveled. More recent data might yield a different picture. In future research, it would be interesting to see whether the use of a broader economic database produces different findings. While increased pressure to remain competitive in the current economic situation may push some family firms to become more entrepreneurially oriented, others may become more risk-averse in order to save existing resources and ensure survival.

The second limitation of this study relates to the cross-sectional nature of our data. Cross-sectional studies can suggest correlations but do not allow researchers to infer causal relationships or effects over time. Thirdly, our sample consists entirely of Spanish firms, thus, any inference to other countries must be made with caution. Country-specific cultural and traditional influences may reduce the generalizability of our findings. It would be interesting in this respect to investigate the potential moderating role of country-specific cultural characteristics on the relationship between family control of businesses and EO. While the role of firm culture in the EO activity of family firms has been documented (Zahra et al., 2004), that of country culture remains unexplored to date.

Additionally, an increasing number of scholars have argued that family firms do not constitute a homogeneous population (Salvato, 2002; Gómez-Mejía et al., 2011) but in fact differ on a range of dimensions (Klein et al., 2005). Thus, different types of family firms may present different EO patterns (Cruz and Nordqvist, 2010; Kellermanns and Eddleston, 2006). While we lack the necessary information to enable further differentiation between different types of family firms, we make a call for research into differences in EO levels among family firms.

It should be noted, moreover, that, while our research design considers EO an unidimensional construct (Covin and Wales, 2012), it could also be conceptualized as a multidimensional construct (Wales et al., 2013). We believe that future research should also explore potential differences between family and non-family firms across the different dimensions in which EO has an impact. Although different in nature (Covin and Wales, 2012), the unidimensional and multidimensional approaches could be used to complement each other and enable a better understanding of the determinants and consequences of EO.

In conclusion, family firms tend to engage less in EO activities than non-family firms. However, the need to be innovative in high-tech sectors appears to be strong enough to overcome family firms' reluctance to engage wholeheartedly in EO activities. Family firms' inclination towards SEW protection may therefore have negative economic consequences, since EO appears to enhance firm performance.

2.7: Appendix: EO and Operational Performance items

Entrepreneurial orientation variable

Indicate their level of agreement with the following statements about the management style (from 1: strongly disagree to 5: Total agreement).

1. Shows a great deal of tolerance for high-risk projects
2. Uses only “tried and true” procedures, systems, and methods (R)
3. Challenges, rather than responds to, its major competitors
4. Takes bold, wide-ranging strategic actions, rather than minor changes in tactics
5. Emphasizes the pursuit of long-term goals and strategies
6. Rewards taking calculated risks
7. Is very aggressive and seeks to appropriate the business from its competitors
8. Rewards good ideas and tolerates unsuccessful ones
9. Favors the creation of autonomous units to encourage creative thinking
10. Encourages new ideas and initiatives

R= reverse scored

CHAPTER III: ARE FAMILY FIRMS REALLY MORE SOCIALLY RESPONSIBLE?

3.1 Introduction

During the last few decades, family business literature has extensively studied how family firms make strategic choices that are consistently different from those made by non-family firms [see Gomez Mejia, Cruz, Berrone & De Castro (2011) for a recent review]. Among the many issues addressed by family scholars, corporate social responsibility (CSR) has received increasing attention. However, despite the efforts to disentangle the role of the family dimension in the adoption of social initiatives (i.e., actions that appear to further the social good, beyond the interest of the firm (McWilliams & Siegel, 2001: 117), there is a lack of agreement about whether family firms are more or less socially responsible.

While some scholars have argued that family firms are more prone to proactively engaging in social activities because, by doing so, they preserve and enhance their non-financial preferences and socioemotional wealth (SEW) (Cennamo, Berrone, Cruz & Gomez Mejia, 2012), others have advocated that family firms may not be more socially responsible. Amoral familism (Banfield, 1958), distrust of outsiders (Fukuyama, 1995), and the “dark side” of SEW (Kellermanns, Eddleston & Zellweger, 2012) make family members more concerned with their own interests than those of others, thus negatively affecting social actions (Morck & Yeung, 2004). Evidence also seems to be mixed and contradictory. For instance, Berrone, Cruz, Gómez-Mejía & Larraza-Kintana (2010) showed that controlling families adopt environment-friendly strategies more frequently than non-family firms in polluting industries. Dyer & Whetten (2006) found no significant differences between family and non-family firms, with regard to positive social initiatives, but discovered that family firms were more concerned with avoiding social concerns. Interestingly, Bingham, Dyer, Smith & Adams (2011) show exactly the opposite.

There are various possible reasons behind these contradictory views and evidence. Firstly, though with some exceptions (i.e., Bingham et al., 2011), most research dealing with the link between family firms and CSR has focused almost exclusively on a single dimension of companies' social actions, namely the environment, whilst when several dimensions have been considered, they have been treated in a preliminary way (Dyer & Whetten, 2006). Secondly, and perhaps more importantly, these works also focused on a single dimension of family SEW, namely the family's concern with its image and reputation. This provides an incomplete picture of the uniqueness of family firms (Berrone, Cruz & Gomez Mejia, 2012). Lastly, previous studies have largely neglected the role of contextual factors that amplify or mute the relationship between firm type and social actions.

We address the above gaps in the literature by arguing that because family firms are concerned with their image and reputation as a way to protecting their SEW, they are likely to be more responsive to external stakeholders' demands (more specifically, the environment, the community, and their customers) than non-family firms. However, their concern with control and influence within the company and their strong emotional attachment to it (another two key SEW dimensions) are likely to deter social actions related to internal stakeholders (namely, employees and governance). Moreover, we explore how institutional and organizational conditions affect the link between family ownership and CSR. Specifically, we argue that national differences in economic, cultural and social terms, industry, and declining

organizational performance, have a different impact on the degree of CSR in family and non-family firms. We tested our theoretical tenets on family and non-family controlled companies in 22 European countries during a period of 4 years, using a unique and original collection of data.

This study contributes to the literature in several ways. Firstly, we reconcile the seemingly contradictory views about the role of family firms in terms of CSR. We argue and show that family firms can be socially responsible (vis-à-vis external stakeholders) and socially irresponsible (vis-à-vis internal stakeholders) at the same time, suggesting that family firms can simultaneously “be good and bad”. In doing so, we expand stakeholder theory by providing fine-grained arguments and more evidence about the role of diverse principals in enacting varying responses to stakeholder pressures. Our analysis of the moderating factors between ownership and CSR also contributes in this direction. Unlike prior works, we take into account organizational and institutional moderators in the relationship between family firms and CSR outcomes. We argue and show that in responding to stakeholder claims, family owners act differently, not only depending on the type of stakeholders (internal versus external), but also depending on whether pressures to implement social practices come from institutional or organizational factors. Finally, studying firms from different countries enables national differences to be taken into account, an issue which has been neglected in almost all family studies up until now (Dyer & Whetten, 2006).

3.2 Theory and hypotheses development

Corporate Social Responsibility (CSR) is considered as an overarching construct that encompasses the set of business policies and practices reflecting corporate responsibility for some of the wider societal good (McWilliams & Siegel, 2001). Yet, the precise manifestation and direction of these social practices are left to the discretion of the corporation, largely affected by who owns the company, and dependent on the varying owners’ preferences (Berrone, et al., 2010; Walls, Berrone & Phan, 2012). Concerns over legitimacy influence firms by pushing them to adopt certain managerial practices that are expected to be socially valued by stakeholders (Deephouse, 1999). However, given the conflicting voices amongst different stakeholders, it is not clear how firms give priority to the diverse social claims made by these stakeholder groups based on their degree of salience and importance (Mitchell, Agle & Wood, 1997).

The confusion is highly visible in the case of family firms. The stakeholder view considers the family as an internal stakeholder because it is linked to the company through ownership, employment, or family ties (Mitchell, Agle, Chrisman & Spence, 2011). Initial studies ignored family interaction with external stakeholders assuming that family owners were shielded from outside pressures because of their strong ownership position. New research has challenged this view, finding that family firms are also responsive to the claims of external stakeholders (Berrone, et al., 2010; Bingham et al 2011). However, understanding how families give priority to internal and external stakeholder claims is an unresolved issue (Mitchell et al., 2011).

To fill this void, we propose a combined framework drawing on organizational identity theory, the socio-emotional wealth approach and stakeholder theory. Organizational identity refers to elements that are central, unique and enduring about an organization (Scott & Lane, 2000). When applied to the reasons

why social practices are adopted, organizational identity predicts that firms are more likely to engage in social actions if, in doing so, these reinforce their self-professed desires. By helping the firm to define what it needs to look at, organizational identity also explains how firms prioritize different stakeholder claims (Brickson, 2007).

Scholars agree that the preservation of the non-financial aspects or “affective endowments” of family owners, what Gómez-Mejía et al. (2007) refer to as “socioemotional wealth” (SEW), is the most salient aspect of family firm identity. Proponents of the SEW view suggest that family owners are more likely to engage in social practices even when there is no clear evidence that this engagement implies economic rewards, because there is socioemotional reward for the family (Berrone et al., 2012).

Implicit in this claim is the assumption that SEW is a monolithic concept, a unique reference point that guides family owners’ strategic decisions. Moreover, it is also assumed that responses will be homogeneous regardless of the type of stakeholders, their proximity or the form of legitimacy they grant. We challenge these assumptions by drawing on recent studies that suggest that SEW has different dimensions, which can explain the existence of different reference points among family principals (Berrone, et al., 2012; Cennamo, et al., 2012), associated with positive or negative valence (Kellermanns, et al., 2012). We argue that, when deciding about social actions, family owners are concerned with protecting their SEW. Still, given the multidimensional nature of SEW, and the existence of multiple claims from diverse stakeholders, response to this concern may elicit varied answers from family owners. As argued below, this implies that family firms can “be good and bad” at the same time, in terms of social practices.

3.2.1 Family and non-family firms, and responses to internal and external stakeholders

Extant research suggests that, as family firms are concerned with corporate reputation, they should be particularly inclined to satisfy the demands of internal stakeholders (i.e. those that are directly related to the company through ownership or employment) by pursuing responsible work practices (Zellweger, Nason, Nordqvist, & Brush, 2011). However, with some exceptions (e.g., Miller & Le Breton-Miller, 2005), family business literature is full of examples that show exactly the opposite. Family ownership is often associated with the design of unfair compensation systems (Chua, Chrisman, & Bergiel, 2009), use of lower peer appraisal processes (Fiegener, Brown, Prince, & File, 1994), managerial entrenchment (Gómez-Mejía, Nuñez-Nickel, & Gutierrez, 2001), nepotism (Burkart, Panunzi, & Shleifer, 2003; López, Revuelta y Sánchez, 1998), scapegoating of non-family executives and employees (Gómez-Mejía, Larraza-Kintana & Makri, 2003), and gender discrimination (Jimenez, 2009). Implicitly, the bulk of evidence shows the existence of two distinct types of internal stakeholders (family vs. non-family) in family firms, who are treated differently when it comes to social practices.

The “emotional attachment” dimension of SEW can explain this differential treatment. Due to the type of social links family members have with their firms, family companies become the place where their needs for affection and belonging are satisfied (Berrone et al., 2012). This results in family altruism (Schulze, Lubatkin, & Dino, 2003). Although family altruism is generally reputed to temper self-interest

inside the family business (Chrisman, Chua & Litz, 2004), it also has a negative side. Specifically, the presence of altruism fosters a set of interdependent relationships among family members that differentiates them from people outside the family (Chrisman, Chua & Bergiel, 2009). Thus, the presence of family altruism can cause inconsistencies in the application of organizational rules depending on whether the employee is a family or non-family member.

Another important dimension of family SEW that also leads to asymmetric treatment of employees (family vs. non-family) lies in the family owners' desire to keep full control over the organization. Some authors suggest that this is the most salient factor affecting family company behavior (Chrisman, Chua, Pearson & Barnett, 2012). The SEW approach predicts that, in order to preserve SEW, family owners need to control the firm on a permanent basis (Berrone, et al., 2012). Hence, they engage in strategies that empower them to retain and/or extend their power over the firm's operations. Employing family members, even though they are not qualified (Chua et al., 2009), or decoupling family members' compensation from performance outcomes (Cruz, Gómez-Mejía & Becerra, 2010) are examples of strategies directed at preserving the "family control and influence" dimension of SEW. This asymmetry is contrary to the existence of social practices toward employees that imply fair treatment of the workforce and equal opportunities for all of them. The "emotional attachment" and the "family control and influence" dimension of SEW also explain family owners' responses to internal stakeholder claims related to governance. When a family owns a large portion of shares, family owners are likely to see governance structures as a tool to reinforce their control and to force top executives to pursue the family's objectives (Kellermans et al., 2012). In this case, instead of using corporate governance mechanisms to legitimize the firm, the family uses them to reinforce family control in the company and protect other family members (Jones, Makri & Gómez-Mejía, 2008), adopting mechanisms which go against good governance practices. Evidence supports this view. Family firms are known to have less independent directors (Anderson & Reeb, 2004), be more likely to have CEO duality (Voordeckers, Van Gils & Van den Heuvel, 2007), and make fewer disclosures of their corporate governance practices in their proxy statements (Ali, Chen & Radhakrishnan, 2007).

Therefore, although literature points to the implementation of social practices related to internal stakeholders as essential to bringing legitimacy to firms (Mayo, Gómez-Mejía, Berrone, Firfiray, & Villena, 2012), we argue that this "legitimacy-seeking logic" operates differently in the case of family businesses. If engaging in proactive stakeholder management with internal stakeholders jeopardizes family control and exposes family members to higher risks compared to non-family firms, family businesses will be more reluctant to implement social practices related to internal stakeholders. Formally stated, this leads us to posit the following statement:

H1a: Family firms are less likely to adopt social practices related to internal stakeholders (i.e., employees and governance) than non-family firms.

A different picture emerges when it comes to responding to external stakeholder demands. In this case, the family owners' main concerns are to protect and enhance the family image and reputation, which

is another important dimension of SEW (Berrone et al., 2012). As opposed to internal stakeholders, external stakeholders are not seen as a direct threat to the family's emotional attachment or influence over the company. Nevertheless, they can be powerful elements in affecting a company's reputation and image (Berrone, Gelabert, Fosfuri & Gómez-Mejía, 2013).

Family members are sensitive about the external image they project to external stakeholders (Craig & Dibrell, 2006). This is because the identity of the family owner is so closely tied to the organization that external stakeholders perceive the firm as an extension of the family itself. In many cases, the family even connects its name and reputation to the product it sells (Birghman et al., 2012). Consequently, family firms are expected to be more willing to endorse any social practice that improves their image and legitimacy in the outside world (Cennamo, et al., 2012). At the same time, the SEW approach argues that since family owners are not faceless owners, they are far more exposed to losses of SEW, as a result of socially irresponsible behavior, than anonymous investors (Berrone, et al., 2010). Thus, they avoid engaging in any actions that may lead external parties to stigmatize them as irresponsible corporate citizens (Deephhouse & Jaskiewicz, 2013). Thus, we propose:

Hypothesis 1b. Family firms are more likely to adopt social practices related to external stakeholders (i.e., the environment, and the community) than non-family firms.

3.2.2 Institutional and organizational factors as moderators of the relationship between ownership and CSR

By building on the multidimensional nature of SEW, the framework developed so far has argued that, when compared to non-family owners, family owners respond differently to internal and external stakeholders, when it comes to social actions. In this section, we also contend that given the SEW preservation concern that characterizes family owners, the determinants of CSR decisions in terms of both internal and external stakeholders may differ in family and non-family firms⁴. Based on different disciplines that have supported the notion that “country matters” and that geographic and competitive environments have an enduring influence on organizations (Marquis & Battilana, 2009), we first examine the effect of national and industry references on both family and non-family firms, when they make CSR decisions. We also analyze the effect of declining firm performance” since this is a key variable in understanding decisions pertaining to CSR activities (Roberts, 1992), and it is shown to have an impact on family owners' SEW preservation goals (Gómez-Mejía et al., 2007).

⁴ Given that the arguments presented in this section apply to both internal and external stakeholders, and for the sake of parsimony, we have not made a distinction between different types of stakeholders. Nonetheless, empirical analyses do reflect this difference.

3.2.2.1 Institutional factors: national CSR standards and industry conditions, and their effect on social activities

Strategic conformity refers to the extent to which a firm's behavior adheres to central tendencies and industry norms, and emphasizes the isomorphic processes that underlie conforming behaviors (Geletkanycz & Hambrick, 1997). When applied to CSR, research suggests that, when deciding on social initiatives, firms often adopt similar "best practices" to avoid experimentation (and the associated risks of it), and secure an appropriate response that will grant expected legitimacy (Jennings & Zandbergen, 1995). Indeed, some would argue that external forces have transformed CSR "from heresy to dogma" for modern corporations (Lim & Tsutsui, 2012). Literature also shows that the reference that firms use to benchmark their practices is influenced by national and cultural boundaries (Campbell, Eden & Miller, 2012), and by the characteristics of the industry in which the company operates (Surroca, Tribo & Waddock, 2010). Therefore, firms are expected to follow national and industrial references when deciding on their CSR activities.

When it comes to social practices, one country that actively sets national standards for CSR, and is often used as a role model, is the United States (USA). Academic evidence points to the USA as a pioneer in incorporating CSR to the business agenda (Kolk, 2000). Therefore, it is reasonable to expect that firms located in a country that is closer in economic, social, geographical, and cultural terms to the USA, are more likely to observe social practices and perceive greater pressures to engage in social activities than firms located in countries further away from the USA. This is particularly true for public-traded companies who are subject to the scrutiny of global stakeholders. Hence, the distance of a country with respect to the USA can be considered an indicator of national CSR practice standards.

Companies are also likely to conform to industry practices (Matten & Moon, 2008) in Europe, a community in which CSR initiatives are largely driven by industry associations. Indeed, a recent European study (Zollo et al., 2011) observed that the industry in which a firm operates is one of the key external factors that determines the degree of cognitive alignment between managers and stakeholders in terms of CSR activities. More specifically, they indicate that high technology industries are among the sectors with the highest alignment (narrowest gaps), which results in them being more willing to engage in social practices. In line with this argument, Surroca, Tribo & Waddock (2010) suggested that in high-growth industries, such as the high-tech sector, firms are more likely to engage in social practices because in doing so, they obtain greater reputational benefits than firms competing in more mature sectors. The reasoning is that in a high technology sector, a firm's business and reputation tend to be built in one area, while in more mature industries, they are spread over several domains. As a result, firms in technological sectors benefit more from the implementation of social practices, in terms of achieving social legitimacy. Additionally, these gains are crucial to accessing key resources for younger, and growing companies (Zott & Huy, 2007), a scenario which is common in high technology sectors.

Despite its contribution to understanding CSR, this "legitimacy-seeking" perspective overemphasizes the blanket role of institutional forces and neglects the role of principals in shaping firms' response to institutional pressures in the form of conforming or non-conforming behavior. Based on a SEW

approach, we argue that pressure to conform to these two CSR catalysts, i.e. national CSR standards and industry conditions, is lower for family firms. Firstly, as the family is the dominant shareholder, family business managers have greater power to act unilaterally than their non-family business counterparts (Carney, 2005). Moreover, the use of an idiosyncratic reference point (SEW) to guide strategic decision-making is likely to imply different logic in assessing the benefits and costs of implementing social practices and, above all, diverse and peculiar interests in driving the decision to respond to stakeholder claims. The combination of the two arguments, family owners' discretion to behave idiosyncratically, and the pursuit of unique family goals, also suggests that family firms' strategic responses are likely to be more heterogeneous than those of non-family firms (Chrisman & Patel, 2012). As a result, family firms' behavior has greater variations in terms of social practices.

The above arguments suggest that non-family firms, which are driven by goals that are mainly financial in nature, offer similar responses to stakeholder claims, and are thus more likely to follow national and industry references as a way to gaining social legitimacy and securing key resources. Specifically, externally and internally oriented social practices increase when non-family firms are located in countries that are closer to the USA in economic, social, geographical, and cultural terms, and for non-family firm operating in high technology industries. The influence of national CSR standards and industry conditions is weaker for family firms. Powerful family owners tend to tailor their responses to stakeholder pressures in order to meet their SEW protection target instead of implementing off-the-shelf solutions, even when these solutions have been accepted as standard. Formally stated, we posit the following:

Hypothesis 2a. Compared to non-family firms, the social practices of family firms are less likely to be influenced by national CSR standards (i.e., distance with respect to the USA)

Hypothesis 2b. Compared to non-family firms, the social practices of family firms are less likely to be influenced by industry conditions (i.e., technological intensity of the sector)

3.2.2.2 Organizational factors: Declining performance and social activities

Literature on CSR indicates that the financial return on social practices is, at least in the short term, questionable from an economic viewpoint (McWilliams & Siegel, 2000). When firms experience a decline in performance that may even put firm survival at stake, it may be advisable for them to focus scarce resources on core activities with more certain returns (Starbuck & Hedberg, 1977). March & Shapira (1992) argued that under declining performance, firms tend to shift their attention from aspirations to survival, emphasizing the dangers rather than the gains, which, in turn, results in more conservative behavior. Thus, when performance diminishes, firms may respond by limiting their engagement in social practices.

We expect this tendency to reduce social activities as firm performance declines to be greater for family firms. One of the characteristics of owner families is the concentration of a large amount of their personal wealth in a single business (Faccio & Lang, 2002). This concentration allows them to control the firm, feeding SEW, but also links their financial and socio-emotional capital to the destiny of the business.

In the extreme, the family loses everything if the firm does not survive. As Chrisman & Patel (2012) states, “as performance weakens, family firms are expected to frame decisions more negatively than non-family firms ..., owing to the prospect of both economic losses and losses of socioemotional wealth.” (p.980). Therefore, the decisions made by family firms are more sensitive to declining performance than non-family firms.

We expect this greater sensitivity to business decline in family firms to be reflected in the CSR arena as well, leading family firms to limit their social activities more than their non-family counterparts. When performance declines, controlling families not only tend to pay more attention to survival (March & Shapira, 1992), but also use control as the key reference point to gauge SEW (Gómez-Mejía, et al., 2007). That is, families shift their attention from other potential SEW reference points, such as image or legitimacy to control, because the increasing threat to their firm's survival is also a threat to the family's undiversified wealth, and may put their capacity to manage the firm under question. Following the logic of the arguments presented in Hypothesis 1a, this emphasis on the control dimension of SEW will further deter families from investing in internally oriented CSR practices. In addition, as reflected in Hypothesis 1b, externally oriented CSR activities are expected to be fuelled by the family's interest in protecting their image and legitimacy. If families turn their attention to control when performance declines, this will translate into fewer externally oriented CSR activities. Consequently, we expect that:

Hypothesis 3. Compared to non-family firms, family firms are more likely to reduce social practices in the face of declining performance.

3.3 Methods

3.3.1 Data Collection and sample

We used the universe of publicly-held companies in Europe whose market capitalization was over €50 million.⁵ To be included in our sample, a firm had had to be listed for the whole 2001-2010 period. This prevented any potential bias associated with recent entrants. Following previous studies, we excluded companies from the finance sector. This initial process resulted in 1,617 companies. This figure was reduced to 598 after matching companies with available data on social practices.

We used several sources to collect data for our research, such as the CSRHub database, the world's largest corporate social responsibility (CSR) database providing social, environmental, community, and governance ratings on around 7,000 companies from 135 industries in 91 countries. It is also the first database that combines data from five of the leading socially responsible investment (SRI) analysis firms (also known as Environment, Social, Governance-ESG), and over 120 influential NGOs. Thus, the data are relatively objective, and are not based solely on self-reported measures. Therefore, they are less likely to

⁵ We had to inspect each company's annual report on an individual basis to determine its family/non-family status. Thus, we decided to set €50M market capitalization as a cut-off point to limit the search to reasonable limits. Further analyses showed that about 10% of European companies have a market capitalization below €70 million. Thus, our cut-off point did not reduce the representativeness of the sample.

suffer from social desirability biases. While not as widely used in management as the KLD database, the CSRHub has recently been used in the context of social responsibility, both in academic (Bu, Wagner, & Yu, 2013) and practitioner environments (Gidawani, 2013). Lastly, like KLD, it includes employee and governance performance indicators, so its categorization of social practices fits with the distinction we have made between internal and external socially oriented practices.⁶

We used the “ultimate owner” criteria from the ORBIS (Bureau Van Dyck) database to identify companies in which there was an owner or group of owners who held at least 20% of the shares. Then, we manually inspected the annual and governance reports of each company to obtain the percentage of family ownership in any of the sampled years and the influence of the family in the management and governance of the company. Based on previous studies (Gómez-Mejía et al., 2003), we classified the company as a family firm if two criteria were met: a) an individual or a family group owned at least 20% of the shares during the whole period 2001-2010. In line with Villalonga & Amit (2006), we took members with the highest percentage of shares as the focal family and b) at least one member of the family was on the board of directors. Following this process, we ended up with 107 family firms and 491 non-family firms. Thus, our final panel consisted of 598 European listed firms, 18% of which were classed as family firms. Accounting and market data were drawn from the BLOOMBERG database, whilst the remaining data on the characteristics of the firm (country, industry, and age) were taken from the ORBIS database. Data to construct the CAGE Index were generously provided by Pankaj Ghemawat (www.ghemawat.com).

We collected data on CSR from 2008 (the first year in which CSRHub data were available) to 2012 (last year available). In order to guarantee time causality, ownership and financial information for a given year was matched with the average CSRHub rates of the two subsequent years. For example, financial and ownership information for 2007 was matched with the average CSRHub rates for 2008 and 2009. We ended up with four blocks of matched data that constituted an unbalanced four-year panel.

3.3.2 Variables measurement

Dependent Variable: Social Practices

CSRHub is an independent organization (www.csrhub.org) that provides information on social practices in over 7,000 companies from 135 industries in 91 countries. The CSRHub methodology maps each element of data it receives from a data source into one or more subcategories and converts it to a numeric scale from 0 to 100 (100 = positive rating). Subsequently, it compares the scores from different data sources for the same company and adjust all the scores from a source to remove bias and create a more consistent rating. It finally aggregates these ratings to category level. Five main categories became apparent, two related to internal stakeholders (employees and governance), and three related to external stakeholders (the environment, the community and customers).

⁶ More information about CSRHub rates is provided in the subsection describing the dependent variable of the study

Internal stakeholders

The *Governance category* covers the disclosure of policies and procedures, board independence and diversity, executive compensation, attention to stakeholder concerns, and evaluation of a company's culture of ethical leadership and compliance.

The *Employees category* includes disclosure of policies, programs, and performance in diversity, labor relations and labor rights, compensation, benefits, including those that engage employees and improve worker development, and employee training, health and safety. The latter covers workplace policies and programs that boost employee morale, workplace productivity, company policies and practices to engage employees, and worker development. The evaluation focuses on the quality of policies and programs, compliance with national laws and with internationally recognized worker rights, as well as proactive management initiatives.

External stakeholders

The *Environment category* data covers a company's interactions with the environment at large, including use of natural resources, and company impact on the Earth's ecosystems. The category evaluates corporate environmental performance, compliance with environmental regulations and many other environmental initiatives, such as the mitigation of a company's environmental footprint, leadership in addressing climate change through appropriate policies and strategies, energy-efficient operations, and the development of renewable energy, and other alternative environmental technologies.

The *Community category* covers the company's commitment and effectiveness within the local, national and global community in which it does business. It reflects a company's citizenship, its charitable-giving programs, and volunteerism.

The *Customers category* covers the responsibility of a company for the development, design, and management of its products and services, and their impacts on customers and society at large. This reflects a company's capacity to reduce environmental costs, create new market opportunities through new sustainable technologies or processes, and produce or market goods and services that enhance the health and quality of life for consumers. It also relates to product safety, quality, and the company's response to problems with safety and quality.

Independent Variables

In order to test Hypotheses 1a and 1b, we included a dummy variable (family) that took the value of 1 when the firm was controlled by a family and 0 if it wasn't. This coding was based on the methodology mentioned above, to identify firms under family control.

To test Hypothesis 2a, we proxied national CSR standards in terms of the cultural, economic and social distance from the USA, a benchmark country in social activities. We labelled this variable "*national standard distance*". The distance between countries is a valid instrument to approach the national standards for a given country, because distance measures provide metrics to gauge the similarity or differences between the cultural, economic and social characteristics of nations (e.g. Gómez-Mejía, et al., 2010). Then, if a country is identified that may be deemed to have high standards for CSR activities, the distance from that country indicates how close the standards of the focus country are compared to those of

the benchmark country. In our case, we selected the USA as the reference country. As previously argued, the USA is often used as a role model for social practices. In addition to its visibility in the social standards arena, it is outside the sample universe (i.e., Europe).

We followed previous studies that considered distance as a construct with multiple dimensions that captures different types of distances between countries (Campbell, et al., 2012). In our case, we used Ghemawat's (2001) CAGE index, where CAGE represents Cultural, Administrative, Geographic and Economic distances. Compared to traditional cultural measures used in previous studies (Hofstede, 1980), the CAGE measurement suggests that countries can be ranked according to administrative, geographic and economic features, as well as cultural aspects. In our case, we considered the CAGE index between the European country the company belonged to and the USA, for each company in the final sample.

Regarding the influence of industry (Hypothesis 2b), we relied on international standards to divide firms in two groups, according to the technological intensity of their industrial sector. We created a dummy variable (*HT sector*) that took a value of 1 when the company belonged to a high technology sector and 0 when it did not.

Lastly, *declining performance* (Hypothesis 3) was measured as the natural logarithm of the firm's ROA ratio at year t-1 to firm performance at year t. To avoid problems with the log transformation of negative returns, we added 1 to all original ROA values before calculating the logarithm. The declining performance variable took a negative value when firm performance at year t was above firm performance in the previous year, zero when it remained the same, and a positive value when the company's ROA declined. Hence, this variable increases as firm performance declines.

Control Variables

We included several control variables to control for other potential determinants of company CSR. We first controlled for *firm size*, since larger firms are subject to closer scrutiny by the public from media, special interests, and stakeholders than their smaller counterparts (Rindova, Pollock & Hayward, 2006), thereby raising the likelihood of them acting in more socially responsible ways (Fombrun & Shanley, 1990). Companies' total assets were used to approach firm size. To correct for skewness in multivariate analyses, we included the logarithm transformation of these total assets. We also controlled for *firm age*, in terms of the number of years since the firm's creation and used the logarithm transformation in a multivariate analysis. We considered two additional variables to capture the potential effect that market forces may have on a firm's social behavior. The first one was *Tobin's Q*, to account for a firm's growth opportunities (Dyer & Whetten, 2006). We measured this as the market capitalization ratio plus the book value of debt, as a percentage of a firm's total assets (Chung & Pruitt, 1994). The second measure was *volatility*, calculated as the standard deviation of the company's stock returns. Finally, since high debt costs may limit the firm's access to the resources needed to develop CSR activities, we included *Cost of debt*, measured as the financial interest expenses as a percentage of financial debt.

3.3.3 Methodological approach

We used random-effect panel data to estimate the influence of family control on CSR. According to the Breusch-Pagan Lagrangian Multiplier test, a random-effect model is more suitable than a fixed-effect

model. Moreover, due to the time-invariant nature of the family firm dummy, a fixed-effect model cannot be estimated without dropping the family business variable (Dyer & Whetten, 2006). To test Hypotheses 1a and 1b, we considered the full sample of family and non-family firms, and looked at the estimation of the family dummy. For the rest of the hypotheses, we ran separate panel data models in the subsample of family and non-family firms. The split sample method is appropriate when theory predicts independent-dependent variables relations by subgroups (family vs. non-family) and has been extensively used in previous family business studies (Gómez-Mejía et al 2003; Berrone et al., 2010).

3.4 Results

The descriptive statistics and correlations for the variables used in this study are reported in Table 3.1. Results show a high correlation between the five different dimensions of CSR and negative correlations between the five dimensions of CSR and the family firm dummy. It also shows that although all four correlations are negative, those between the family dummy and the externally oriented dimensions of CSR (i.e., the environment, the community and customers) are weaker. Nonetheless, it should be taken into account that such negative correlations may be capturing a size effect, since larger firms seem to invest more in social activities (Fombrun & Shanley, 1990), and it has been argued that family firm preferences for SEW protection may have a negative impact on their size (Gómez-Mejía, et al., 2007). Multivariate analyses are necessary to provide a more qualified test of Hypotheses 1a and 1b.

The national CSR standard measure, approached in terms of the distance between the country the firm belongs to and the USA, correlated negatively with the five CSR dimensions. This suggests that, as expected, the more dissimilar the country is to the USA, the weaker the social performance of firms. This aligns with the notion that the existence of standards, norms, and ultimately, pressures towards the adoption of certain practices in a given country, increases the number of firms that adhere to such practices and standards.

Table 3.1: Means, Standard Deviations, and Correlations

	Mean	S.D.	Governance	Employees	Environment	Community	Customers	Family	National Std. distance
Governance	53.48	9.85	1						
Employees	56.30	9.49	0.755 ***	1					
Environment	54.54	10.45	0.714 ***	0.726 ***	1				
Community	51.39	9.19	0.735 ***	0.760 ***	0.753 ***	1			
Customers	49.84	11.35	0.549 ***	0.520 ***	0.682 ***	0.535 ***	1		
Family firm	0.17	0.374	-0.189 ***	-0.172 ***	-0.095 ***	-0.130 ***	-	1	
National std. distance	3.76	2.05	-0.266 ***	-0.243 ***	-0.048 *	-0.208 ***	0.045	0.189 ***	1
HT sector	0.39	0.49	0.002	0.018	0.021	-0.041	0.175 ***	0.027	0.13 ***
Declining P.	0.06	1.23	-0.009	0.011	0.000	-0.013	0.007	-	-0.003
Volatility	0.36	0.21	0.004	-0.043	-0.059 *	-0.046	-	-	-0.065 **
Firm size	8.31	1.73	0.296 ***	0.252 ***	0.376 ***	0.263 ***	0.341 ***	-	0.268 ***
Firm age	3.75	0.92	-0.067 **	-0.063 **	-0.005	-0.036	0.083 ***	0.002	0.197 ***
Tobin's Q	1.53	0.83	-0.093 ***	-0.051 *	-0.096 ***	-0.055 *	-	0.024	-0.054 *
Cost of debt	7.95	9.45	-0.012	-0.013	-0.029	-0.018	-	-	-0.015

	HT sector	Declining P.	Volatility	Firm size	Firm age	Tobin's Q	Debt
HT sector	1						
Declining P.	0.036	1					
Volatility	-0.002	-0.081 ***	1				
Firm size	-0.057 *	0.006	-0.190 ***	1			
Firm age	0.060 **	0.002	-0.007	0.102 ***	1		
Tobin's Q	0.150 ***	0.054 *	-0.192 ***	-0.323 ***	-0.088 ***	1	
Cost of debt	-0.020	0.005	-0.007	-0.043	-0.025	0.025	1

* $p < .05$; ** $p < .01$; *** $p < .001$

Table 3.2 summarizes the results of the panel data models to determine the effect of family firms on the hypothesized four dimensions. There is a negative, and highly significant effect of the family on the two internal dimensions (i.e., governance and employees) that provides strong support for Hypothesis 1a. However, the impact of this dummy on the three external dimensions of CSR, namely the environment, the community and customers, was non-significant. Therefore, there was no significant difference between the

wxternally oriented social activity of family and non-family firms, resulting in Hypothesis 1b not being supported.⁷

Table 3.2: Panel data estimations for the influence of family firms on CSR

	Governance		Employees		Environment		Community		Customers	
Family firm	-3.150	***	-2.430	***	-1.026		-1.894		-0.374	
National std. distance	-1.500	***	-1.400	***	-0.657	***	-1.049	***	-0.318	
HT sector	1.515	*	1.546	***	1.386	*	0.140		4.471	***
Declining P.	0.191	*	-0.134		-0.050		0.069		-0.272	*
Volatility	7.461	***	2.561	***	5.554	***	5.685	***	7.384	***
Firm size	2.331	***	2.021	***	2.531	***	1.822	***	2.412	***
Firm age	-0.218		-0.027		0.136		-0.252		1.063	*
Tobin's Q	-0.338		-0.189		-0.711	*	-0.350	*	-1.268	**
Cost of debt	-0.001		-0.001		-0.004		-0.011		0.002	
N	1771		1755		1741		1580		1518	
Wald X ²	282.00	***	215.56	***	211.28	***	131.31	***	199.24	***

* $p < .05$; ** $p < .01$; *** $p < .001$

To test Hypotheses 2a, 2b and 3 we estimated two separate models, one for the subsample of family firms, and another for the subsample of non-family firms. Table 3.3 summarizes the results of this estimation process. The variable national standard distance was, with the exception of the customer dimension, highly significant, and with the expected sign, in the subsample of non-family firms. However, it was only significant for the governance dimension in the subsample of family firms. This provides support for Hypothesis 2a.

Table 3.3: Panel data estimations on the determinants of CSR in family (FF) and non-family (NFF) firms.

	Governance			Employees			Environment		
	FF	NFF		FF	NFF		FF	NFF	
National std. distance	-0.848	-1.567 ***		-0.328	-1.539 ***		-0.431	-0.691 ***	
HT sector	-2.130	2.110 ***		-1.603	2.008 ***		-1.781	1.889 **	
Declining P.	-0.176	0.206 *		-0.762	-0.108		-1.718 ***	0.015	
Volatility	8.538 **	7.485 ***		6.411 *	2.230 *		4.050	5.931 ***	
Firm size	2.055 ***	2.368 ***		1.279 **	2.135 ***		1.610 *	2.625 ***	
Firm age	0.023	-0.191		-0.255	0.086		1.652	0.027	
Tobin's Q	-0.904	-0.216		-0.831	-0.060		-1.567	-0.611	
Cost of debt	1.001	-0.001		0.019	-0.001		0.034	-0.004	
N	290	1471		288	1467		286	1553	
Wald X ²	41.41 ***	249.80 ***		25.90 **	193.77 ***		37.50 ***	139.39 ***	

⁷ We reran the analysis using the continuous "family ownership" variable, which measures the percentage of shares owned by the focal family in each of the sampled years. The measure has been the most common proxy used to capture the intensity of SEW in prior studies and has been validated in many articles in top journals (e.g., Berrone et al. 2010; Gomez-Mejia 2007; Gomez-Mejia, et al. 2011). As expected, the family ownership variable had a negative and significant effect on social initiatives related to internal stakeholders. Its effect on external practices was also insignificant as was the case when using the dummy variable. Thus, our conclusions remain unchanged.

The effect of industry conditions, represented in our analyses by the technological intensity of the sector in which the firm operates, was also non-significant for family firms but was positive and highly significant, with the exception of the community dimension, for non-family firms. This indicates that while non-family firms' social activity is greater in technologically intense sectors, family firms show similar social behavior irrespective of the industry and its characteristics. This provides support for Hypothesis 2b.

Finally, we also found differences between the two subsamples in terms of the influence of declining performance on firms' CSR policy. More specifically, and as predicted, the influence of the variable that captured firm performance evolution on CSR dimensions was negative in the family firm subsample. However, this negative effect was only significant for the environment and customer dimensions, and was not significant for governance, employees or the community. Interestingly, the influence of this variable on the non-family firm subsample was positive and significant for the governance dimension. This indicates a different reaction, in terms of social activities, to declining performance between family and non-family firms. While family firms tend to reduce their social activity, particularly in external dimensions, non-family firms tend to increase activities in the internal governance dimension. These findings support Hypothesis 3. We ran additional analyses to test the endogenous nature of the family firm variable in our sample, one of which was a pooled regression, for each of the four CSR dimensions, with instrumental variables using robust standard errors that took into account the clustered nature of the panel data set. In addition, we ran a treatment regression that considered individual clustering. The results demonstrate there was no endogeneity bias in our panel data estimations.

3.5. Discussion and conclusion

Our theoretical and empirical analyses provide new ways of understanding the role of ownership structures in the adoption of practices to respond to different stakeholder demands, and thus provide several academic and practical contributions.

Contributions to research

While prior literature in the area has studied the role of family ownership and CSR, there has been debate about how this influences social practices. The distinction between internal and external stakeholders, and the acknowledgment of the multidimensional nature of SEW, sheds light and helps reconcile contrasting positions. Our work shows that family firms can spur social initiatives and be as socially responsible as non-family firms, when they are linked to external stakeholders (as a way to protect their reputation and image, and thus increase their SEW). At the same time, they abate social practices when they are oriented towards internal stakeholders (as a way to secure control and emotional bonds, and enhance their SEW). Thus, SEW can be a "double-edged sword" eliciting both socially responsible and irresponsible behavior in family firms, having both a bright and a dark side. The negative effect of the family firm on the employee dimension of CSR seems surprising in light of the numerous studies suggesting that family businesses tend to manifest a deep sense of personal responsibility towards their

employees (e.g., Le Breton-Miller & Miller, 2006). Our proposed framework also reconciles these apparently contradictory findings. We show that families are reluctant to attend employees' claims regarding social practices, if they have the potential to challenge family control over the business or put family employees at risk. Thus, although family owners may be aware of the instrumental value of social behavior in terms of internal stakeholders, the need to guarantee family control over company operations leads them to neglect this, and they become short-sighted in this respect.

The lack of support for the hypothesis predicting the positive effect of family ownership on social activities aimed at external stakeholders also merits some discussion, in light of accumulated findings that demonstrate that family control induces CSR activities. While we failed to find support for hypothesis 1b, results indicate that when it comes to external stakeholders, family firms are not significantly different from non-family firms. We interpret this as a balancing process in which family firms engage, acting in socially responsible terms towards external stakeholders (at least to an extent which is comparable with non-family firms) while behaving less responsibly towards internal stakeholders. Moreover, the fact that our results do not confirm previous evidence showing that family firms engage more actively in initiatives aimed at external stakeholders, such as the environment (Berrone et al., 2010), can be explained in the national contexts in which our research was conducted (European countries). Differences with respect to prior work can be explained, at least partially, as a consequence of national differences. When we considered differences in terms of national standards, this was done with respect to the USA as a reference point. However, we believe that issues at regulatory level (e.g., specific environmental laws and norms, regulatory stringency and enforcement mechanisms), may explain the different results. Future research should investigate to what extent these differences interact with the identity of the owners (i.e. family versus non-family), to explain cross-national variations in company responses to stakeholder claims.

Our work also contributes to the growing literature that frames phenomena under the SEW approach. Our evidence, suggesting that the underlying drivers that push social initiatives in both ownership forms are significantly different, confirms the uniqueness of family company identity, through the use of SEW as a reference point to guide strategic decisions (Berrone, et al., 2012). Going further, our results indicate that because family firms use SEW preservation as a reference point rather than using far-off targets defined by institutional factors (i.e., national standards or industry conditions), they are less likely to “follow the norm” when responding to social claims from internal and external stakeholders. However, concern with SEW preservation also implies that family firms' social practices will be more responsive to organizational factors that may jeopardize family SEW, and specifically to the evolution of firm performance. As noted, family firms tend to reduce their externally oriented social activities when faced with a decline in performance. This finding is in line with previous research (Chrisman & Patel, 2012; Gómez-Mejía, et al., 2007) that shows how the strategic behavior of family firms varies when firm survival is perceived to be at stake. Interestingly, the evidence provided shows that non-family firms react in a different, and to some extent, unexpected way when they face weakening economic performance. Contrary to their family counterparts, our results suggest that non-family firms are more prone to engage in governance-improving activities as performance deteriorates. A cynical interpretation of this is that managers of non-family firms use social initiatives in a context of decreasing performance as a tool to

entrench themselves in the firm (Cespa & Cestone, 2009). An alternative explanation may lie in the instrumental approach to stakeholder management that suggests that firms use social practices as an instrument to gain legitimacy, reputation, and other critical intangible assets to operate in a given context (Hillman & Keim, 2001).

Overall, our results show that family firms do not operate in a vacuum and that institutional and organizational factors can affect the way they function and operate. Family firms' relative isolation from external forces and their greater sensitivity to organizational factors has an almost homogeneous effect across internal and external CSR dimensions. However, future research should examine the specific effect of these factors by stakeholder type. Similarly, additional institutional and organizational factors should be included in this analysis.

Contributions to practice

Managers who are keen to pursue social actions need to know that their chances of adoption are contingent on the firm's ownership structure. The chances of implementing practices are higher in family firms, as long as they are related to external stakeholders. However, if managers intend to focus on actions that improve the conditions of internal stakeholders, they will encounter resistance in family firms. Paradoxically, family firms see these practices (or the lack of them) as a valuable way to preserve their socio-emotional endowments.

As noted, we have observed that, compared to their non-family counterparts, family firms decisions concerning social actions are less influenced by external managerial trends and standards. Such relative isolation may be an advantage for family firms, to the extent that this can protect the firm from management practices that are simply fads, and are not driven by efficiency considerations. However, there is also a flip side, as family firms may lag behind in the adoption of practices that, at least in certain contexts, are deemed to have a positive impact on firm results. Family firm managers should be aware of these circumstances and engage themselves in the search for truly efficient management practices.

Limitations

Our work has its limitations. At least four aspects must be highlighted. Firstly, we did not measure SEW directly, but instead proxied it by using a dummy that considers both family ownership, and a family member on the board of directors. Although this is not perfect, we believe it is a valid initial approach for a SEW construct, for several reasons. Family ownership has been the most common proxy used to capture the intensity of SEW in prior studies and many articles in top journals have validated it (Berrone et al. 2010; Gómez-Mejía et al., 2007; Gómez-Mejía, et al. 2011). Moreover, as the concentration of company ownership in family hands increases, the family has greater influence over the firm's strategic decisions (Anderson & Reeb, 2003; Miller et al., 2010), reinforcing the control dimension of SEW, the level of personal attachment and identification, and the emotional bonds between family members and the firm (French & Rosenstein, 1984). In addition, as Berrone et al. (2012) argued, the percentage of shares owned by a family is "perhaps the only available alternative when using large archival databases" (p. 264).

Additionally, controlling family influence over company affairs increases with the presence of at least one member on the board of directors (Anderson et al., 2003). Nonetheless, future research should try to measure SEW and its link to CSR directly.

Secondly, our distance variable considered the USA as our reference point. We noted the use of country distances, as proxies for the relative presence of high standards for CSR, demands the selection of a reference country with high CSR standards. This limitation should be kept in mind when implementing this approach. We also ran our analyses taking a European country, the United Kingdom, as a reference. Results (available on request) are very similar to those obtained when the USA was used as our benchmark. However, we consider that future research should explore the availability of alternative measures to capture national CSR standards.

Thirdly, our empirical setting only took in publicly traded firms. Subsequent studies should explore these relations in privately-owned companies. While it is widely agreed that publicly held companies are more exposed to institutional pressures, further studies should examine how family control issues and emotional bonds interact with CSR outcomes in the case of private family firms. Moreover, private family firms are likely to use less formal internal and external practices. In fact, as we see it, the formality of social practices in the case of listed firms can be a valid response to an important stakeholder: the shareholders. Future studies should address what happens to the relationship between family influence and CSR in contexts in which this formality is not required, as is the case of privately-owned firms.

Moreover, although including firms that were listed for the entire 2001-2010 period avoided the effect of new entrants, it does not completely rule out the presence of survivor bias. Nonetheless, we explored this issue by looking at the firms excluded from our sample. Evidence indicated that they were not included, in most cases, as a result of missing data, or because the firm stopped trading as public concerns. Only a handful of them went bankrupt. We interpret this as evidence that survival bias was not a concern in our sample.

Concluding Remark

This study reveals that the SEW protection concern that characterizes family firms leads them to show a double face in their relationships with stakeholders. While they are as responsible as non-family firms in their relationships with external stakeholders, they show a more restrictive behavior with internal ones. Such behavior is less influenced by external norms and standards, but is more sensitive to performance decline.

CHAPTER IV: FAMILY CEO SATISFACTION: THE ROLE OF NON-ECONOMIC GOALS

4.1 Introduction

A central premise of the field of family business studies is that family and non-family firms behave differently owing to the different goals and preferences of dominant families (Chua, Chrisman, and Sharma, 1999). A manifestation of these differences frequently mentioned in theory and increasingly used in empirical research is the importance that family owners concede to non-economic outcomes (Corbetta and Salvato, 2004; Sharma et al., 1997; Shepherd, forthcoming; Tagiuri and Davis, 1992). These non-economic outcomes, commonly referred in the literature as socioemotional wealth (SEW) (Gómez-Mejía et al., 2007), include elements such as the emotional attachment to the family business, the desire to keep effective control of the firm, or the intention to pass the firm to future generations (Berrone et al., 2012). It has been argued that decision making in family firms is driven by family firms' favoring of objectives related to the creation of SEW over objectives related to creation of economic wealth (Cruz, Gómez-Mejía, and Becerra 2010). While the SEW preservation goal of family firm is unquestioned (e.g., Jaskiewicz and Astrachan, forthcoming), a key ongoing debate in the family firm literature centers on understanding how non-economic goals (i.e. SEW) are formed and balanced against pure economic goals, and how they evolve and change across generations (Zellweger et al., 2012; Schulze and Kellermans, 2015; Chua et al., 2015). In fact, there are growing calls for a more precise approach to SEW to continue progressing in our understanding of family firms and, by extension, of the importance and impact of non-economic factors in firm's management and decisions (Miller and Le Breton-Miller, 2014; Schepers et al., 2014). In this matter, we have recently witness some attempts to develop survey based instruments and procedures to measure SEW (Berrone et al., 2012; Schepers et al., 2014, Zellweger et al., 2012). Hence, an assessment of whether SEW value exists in combination with the economic goals and how this equation varies across different family firms is important to the theory of the family firm.

The goal of the present study is to analyze and explore the relevance of non economic goals in family firms and its evolution across generations. Specifically, we seek to assess the relevance of non-economic goals in family firms and its evolution by analyzing the impact of past economic performance on the overall CEO satisfaction with the firm, both in comparison with non-family firms and across family firm of different generations. Understanding satisfaction with the firm is relevant since satisfaction determines, to a great extent, the decision to continue and invest more time and resources in the firm, or to leave the field (Cooper and Artz, 1995; Delgado-Garcia et al., 2012). However, to our knowledge research on satisfaction has focused essentially on employees, and little attention has been paid to owners (Walker and Brown, 2004) or top managers (Cooper and Artz, 1995, Mahto et al., 2010). Top managers or CEO satisfaction in the context of family firms has been studied regarding the satisfaction with the job (Daily and Near, 1999) or the satisfaction with the succession process of family firms (Di Massis, et al. 2012) but not the general satisfaction with the firm. Daily and Near, (1999) argued that it is likely that owners of smaller firms, who also manage the operations of those firms, are likely to experience high job satisfaction just as a result of their ownership and involvement in the business.

Cooper and Artz (1995) suggested that satisfaction is referent dependent. They noted that individuals'

balance their expectations with actual rewards or performance, and that these individuals are more satisfied when their expectations are met. In this study, we combine the prospect theory with the SEW approach to model the overall satisfaction of the CEO with the firm. Prospect theory is one of the principal behavioral utility models proposed as alternatives to the expected utility model of decision making under risk (Starmer, 2000). The theory states that people make decisions based on the potential value of losses and gains rather than on the final outcome, and that people evaluate these losses and gains against a reference point. An important implication of prospect theory is that the way economic agents subjectively frame an outcome or transaction in their mind against this reference point affects the utility they expect or receive, and thus affect their overall levels of satisfaction. As it has been indicated previously, SEW preservation has been argued to be the main reference point for controlling families in family firms (Gómez-Mejía et al., 2007). We conjecture that since the majority of controlling families in family firms emphasize SEW protection goals over pure economic goals (Arregle et al., 2005; Gómez-Mejía et al., 2007; Berrone et al., 2010; Mahto et al., 2010), the impact of firm economic performance on global satisfaction with the firm will be weaker than in non-family firms. That is, the impact of pure economic measures of performance will be more salient on non-family firms.

Implicit in this claim is the assumption that “family firms” form a homogeneous group. However, that is not the case. It has been noted that family firms differ in their balance of economic and non-economic goals (Gómez-Mejía et al., 2010; Mahto et al., 2010). The question then is to understand how such balance varies. The generation running the firm seems to be a relevant factor. Several family firm scholars (e.g. Cruz et al., 2012; Gómez-Mejía et al., 2007; Zellweger et al., 2008; Zellweger and Astrachan, 2008) have suggested that SEW protection concerns are stronger in early development stages of the family firm, and that such concerns weaken as the firm moves into later stages. Zellweger et al (2012) showed that the emotional value will be contingent on whether the owner has the opportunity to hand the firm over to a next family generation, that is, whether the ownership stake develops such a kin-keeping role. These authors discussed the factors that influence the financial value of the firm, suggesting two components: the cash flow value (objective measure) and the private benefits (subjective measure) that are available when the firms has concentrated ownership (Jensen and Meckling, 1976). So, while they do not deal directly with satisfaction, they are able to provide an approach to the value of SEW in monetary terms, that similar to our approach, is computed in terms of the difference with economic outcomes. Thus, the development stage of a family firm might indeed be a further factor affecting emotional value. Consistent with all this previous research on family firms we propose that generational aspects influence the balance between economic and non-economic goals among family firms. We argue that SEW evolves across generations and consequently the importance of firm performance for satisfaction with the business also evolves. Specifically, we hypothesized that pure economic goals gain relevance over SEW protection ones with generations, and therefore that CEO's satisfaction levels with the firm are more dependent upon firm performance in second and subsequent generations than in the first one.

In a similar vein, threats to firm survival, and thereby to SEW, may lead family firms to pay more attention to economic goals in times of economic difficulties (Chrisman and Patel, 2012). Previous studies have largely neglected the role of contextual factors that amplify or mute the relationship between past

performance and satisfaction. So, we will also analyze the effect of positive or negative firm performance since this is a key variable in understanding the decision making and it is shown to have an impact on family owners' SEW preservation goals (Gómez-Mejía et al., 2007). Thus, moving forward our understanding of the heterogeneity of family firm, we also try to study the differences in satisfaction when the business is not going as expected. March and Shapira (1992) argued that under declining performance, firms tend to shift their attention from aspirations to survival, emphasizing the dangers rather than the gains. Thus, we argue that when performance is negative family firms may shift their reference point from SEW to economic goals and consequently the assessment of their satisfaction with the firm will be more contingent upon firm's economic performance.

In sum, the chapter makes several contributions. First, it proves the relevance of the non-economic goals in family firms relative to financial objectives. We provide evidence that family involvement create socioemotional wealth for family firms and that influences the families' satisfaction with the firm beyond pure economic performance. In this vein, the chapter adds to the growing literature on family firms that looks at how SEW preservation motives drive the perceptions of family firms. Being able to control for the pure economic performance of the firms, the results of the present chapter may provide additional evidence to indirectly measure and help understand the importance of the non-economic goals in the global satisfaction measure of family firms. Second, the study contributes to one of the central topics in the literature of family firms these days: the understanding of the heterogeneity of family firms. We note that the importance of SEW, and therefore the balance of economic and non-economic (i.e. SEW) goals, varies with generations. We argue that over generations SEW evolves and pure economic goals gain relevance, and therefore propose that the impact of past economic performance on satisfaction with the firm increases over generations. Third, we contribute to the scarce literature in the determinants of satisfaction with the business for firm managers. It is relevant to note that existing research has focused essentially on satisfaction with firm economic performance. We do not restrict ourselves to economic performance but focus on general satisfaction with the firm, and therefore reflect satisfaction with both economic and non-economic (i.e. SEW) aspects of the firm. Besides, unlike prior works, we also take into account organizational factors such as the negative performance of the firm. When the economic performance is negative, the importance of the non-economic goals for family business would also change. So, the relevance of these goals will not only depend on the generation but also on the performance context. An additional interesting feature of our study is that our hypotheses are tested in a representative sample of small Spanish firms. Since the data are easier to obtain, most previous studies about SEW are based on publicly held companies. We are able in this study to find out the SEW specificities of private held firms, which has not been studies with much detail.

The paper is structured as follows. The next section presents the theoretical framework and the resulting hypotheses. Section three, contains information about the database and the variables employed to test the hypotheses of the study. Section four, presents the results of the empirical analysis. The final section of the chapter is devoted to the discussion.

4.2 Theoretical framework

4.2.1 *Satisfaction with the firm in family and non-family firms*

Satisfaction with the firm is a crucial measure of firm performance, particularly in the case of small and medium sized companies, where the influence of founders and owners may be strong (Powell and Eddleston, 2013), because it significantly influences the decision to continue in the business or the decision to invest more resources and time on it. Past research on satisfaction in family firms (e.g. Mahto et al., 2010) has focused exclusively on satisfaction with firm's economic performance. However, we have discussed that controlling families highly regard non-economic goals (SEW). Further, they may even emphasize SEW over economic performance. It is not that family firms do not pay attention to economic goals, but that SEW (i.e. non-economic goals) are highly regarded in this firms (Gómez-Mejía et al., 2010; Berrone et al., 2010) and may balance both (Mahto et al., 2010). Therefore, a more complete view of satisfaction with the firm, particularly in the case of family firms, cannot only be restricted to satisfaction with economic performance but should also take SEW into consideration (Zellweger et al., 2012).

Consistent with previous research (e.g. Daily and Near, 1999) we define satisfaction with the firm or business as the extent to which the results obtained by the company (economic and non-economic) meet or surpass the expectations of its managers. Thus, levels of satisfaction are reference dependent. Prospect theory (Kahneman and Tversky, 1979; Tversky and Kahneman, 1986) links individuals' satisfaction with subjective assessments of results relative to reference points chosen by the individual. According to prospect theory, the way economic agents subjectively frame an outcome or transaction in their mind affects the utility they expect or receive, and thus affect their overall levels of satisfaction. Prospect theory makes some assumptions about risky decision making (Levy, 1992). First, decisions are not based on final wealth but on gains and losses relative to a reference point. Second, outcomes are assigned a subjective preference value using a value function that is steeper on the loss side than the gain side in the neighborhood of the reference point. Third, the decision maker weights the outcome preferences by subjective probabilities instead of the objective probabilities. The subjective probabilities systematically overstate low probabilities and understate high probabilities. Finally, the impacts of gains and losses relative to the reference point exhibit diminishing sensitivity (Chua et al, 2015). Thus, the overall preference value for a particular alternative decision/action is calculated as the sum of the subjective preference values for the gains/losses associated with each possible outcome, weighted by the subjective probabilities. The decision maker then chooses the decision/action with the highest overall preference value (including economic and non-economic values).

The family business literature has long stressed the unique characteristics and peculiarities of family firm identity (Kepner, 1983; Kets de Vries, 1993; Westhead, et al., 2002). Strategic outcomes of family firms are chosen with the intention of maximizing an utility function with two main components (SEW and pure economic outcomes). Controlling families in family firms would balance both economic and non-economic elements in their decision making, such as the emotional value (Zellweger et al., 2012), the IPO (Leitterstorf & Rau, 2014) or performance satisfaction (Mahto et al., 2010), but it is acknowledged that in family firms the main reference point to assess their situation and make decision is SEW. Hence,

according to prospect theory the assessment of the satisfaction of family members with the company will be primarily based on how the company is contributing to the family SEW (i.e. whether the family SEW has maintained or improved, or it has rather diminished). That is, the SEW approach to family firms and prospect theory suggest that the family members will be reluctant to evaluate the satisfaction with the firm based just on the past financial performance, but would primarily consider the non-economic factors (i.e. SEW). Thus, as compared with non-family firms, in family firms evaluation of satisfaction with the business will preeminently consider the non-economic factors. As such family firms may react to past performance in a somewhat different way compared with nonfamily firms. Consequently, we expect that there are differences between family and non family firms in the past performance-satisfaction relationship, this relationship being weaker in the case of family firms due to the importance that controlling families place to SEW. Formally stated:

Hypothesis 1: The impact of past financial performance on overall satisfaction with the firm in family firms will be lower than in non-family firms.

4.2.2 The role of generations

In most studies, family ownership is used as a proxy for the existence of SEW (e.g., Berrone et al., 2010; Gómez-Mejía et al., 2007). In contrast to this, the family business literature has largely emphasized existing differences within family firms (Zahra, Hayton, & Salvato, 2004). However, to date these differences have barely been linked to SEW issues and calls have been made to bridge this gap (Chua et al., 2015; Zellweger et al., 2012). The SEW literature must reach beyond this oversimplification and explain the factors behind the varying sources and degrees of SEW.

A key concept in the family business is the generation involved in the business. The SEW concept is projected on a generational perspective (Gómez-Mejía et al., 2007) emphasizing that attitudes of family members differ across generations, thus affecting their capacity to influence the company's strategic direction (Sonfield & Lussier, 2004). According to the SEW perspective, the degree of family identification, influence and personal investment in the firm changes as the company evolves across generations (Gersick et al., 1997; Schulze et al., 2003). Dyer (1988) and McConaughy and Phillips (1999) note the differences between first and following generations in family firms. For instance, it has been suggested that the family's attachment to the organization is highest when the firm is owned and managed by the founding family and that it tends to weaken as the firm transitions into subsequent generations (Chua et al., 1999; Mishra & McConaughy, 1999; Schulze et al., 2003a). Based on that, Gómez-Mejía et al. (2007) argue that, independently of financial considerations, losses in SEW should weigh less heavily on a family firm's willingness to give up control as it moves from a founding-family-controlled and -managed firm to a firm that is owned by an extended family and professionally managed. Hence, strategic choices are more likely to be driven by economic considerations in later generations (Gómez-Mejía et al, 2007; Chen et al, 2010). In this vein, it seems that the emphasis on preserving the family's SEW lessens as the firm moves through generations and that financial considerations become more important. Thus, the balance of economic and

SEW goals, and its influence on assessments of satisfaction with the firm, changes with the generations. Consequently the generation that is at the helm is a key factor to consider in order to reach a better understanding of how SEW evolves and is balanced against economic performance. Continuing with the approach used for hypothesis 1, and given the current difficulties to obtain a reliable direct measure of SEW, we explore this balance by looking at the importance that economic performance has on satisfaction for the business for different types of family firms.

In this study we distinguish between the “Founder-family”, and the “second and next generation”. More specifically: (1) Founder-family: firms that are family firms and the founder is still present in the management of the firm. (2) Next-generation: firms that are family firms but the founder is not present on the board. Thus, the next generation of the founder is managing the firm.

Since in first generation family firms only the founding generation is present, ownership structures tend to be more concentrated than in next generation (Gómez-Mejía et al, 2007). Therefore, it is easier for family members to maintain the SEW perspective and the fulfillment of non-economic goals as one of the main priorities of the firm. Thus, the weight of socioemotional values will be lower in second and next generation. That is, SEW loses its preeminence as reference point, and makes the non-economic goals to be less important when evaluating the satisfaction with the company. Consequently, the importance of past financial performance on family CEO satisfaction in second and next generations should be higher than the founder generation, and similar to that in the non family firms. The balance between SEW and economic outcomes leans more to economic factors in second and next generations. Formally stated:

Hypothesis 2: The impact of past financial performance on overall satisfaction with the firm will be higher for second and next generation family firms than for founder family firms.

4.2.3 Negative versus positive performance and satisfaction in family firms

Until now, we have studied the differences between the direct effect of economic performance on satisfaction in family and non-family firms, and we have also distinguished first and next generation family differences. But, what will happen if the economic performance goes down? When firms (family and non family) experience a decline in performance that may even put firm survival at stake, it may be advisable for them to focus scarce resources on core activities with more certain economic returns (Starbuck & Hedberg, 1977). In the case of family firms, Chrisman and Patel (2012) state, “as performance weakens, family firms are expected to frame decisions more negatively than non-family firms..., owing to the prospect of both economic losses and losses of socioemotional wealth” (p. 980). Therefore, the decisions made by family firms are more sensitive to negative performance than nonfamily firms. Thus, when the performance is negative, controlling families tend to pay more attention to the economic reference point and less to the SEW reference point. This leads to a change in the preeminence of the factors being considered to assess the satisfaction with the company, with a greater relevance being attributed to pure economic outcomes. Hence, in the spirit of the previous hypotheses, we would expect the weight of past financial performance

on the satisfaction with firm to be bigger in context of negative performance.

Hypothesis 3a: The impact of past financial performance on overall satisfaction with the firm will be higher for family firms with negative performance than for family firms with positive performance.

We have formulated the last hypothesis for family firms in general, but we also able to go further and study the differences in the relative importance of financial performance in first and second and next generation family firms facing negative performance. Within family firms, we have just proposed that, although for all family firms the impact of financial performance on satisfaction with the firm will be higher in face of negative performance. We have also seen before that strategic choices are more likely to be driven by economic considerations in later generations of the family (Gómez-Mejía et al, 2007; Chen et al, 2010). Thus, it is likely that the balance of economic and SEW goals changes not only with the generations but also in face of negative performance. Specifically, our previous arguments lead us to expect that second and next generations family firms will give more importance to economic performance than the first generation family firms in context context of negative performance. Thus:

Hypothesis 3b: In face of negative performance, the relationship between past performance and overall satisfaction with the firm will be greater for second and next generation than for founder firms.

4.3 Methods

4.3.1 Data collection

The hypotheses of the study are going to be tested on a unique representative sample of Spanish small firms in high and medium technology manufacturing and service industries. The population of Spanish small firms in these industries was initially identified using the SABI database, the most comprehensive dataset of incorporated firms in Spain. First high and medium-high technology sectors (in both manufacturing and services industries) were identified using the classification of the Organization for Economic Co-operation and Development (OECD) and the “Instituto Nacional de Estadística” (INE).⁸ Based on this industry classification we searched for firms between 10 and 50 employees whose primary or secondary activity code corresponded to one of those sectors. In addition we removed the few firms that were not incorporated businesses or limited partnerships (Wiklund et al., 2009), obtaining a total population of 10565 firms. A representative sample of 1500 firms was selected to guarantee industry and legal form

⁸ INE is the Spanish National Institute of Statistics. 21 (manufacturing of pharmaceutical products), 26 (manufacturing of optical and electronic devices) and 303 (manufacturing of aeronautic and aerospace machines and products) are manufacturing high-tech sectors. Sectors 20 (chemical industry), 254 (weapon and ammunition manufacturing), 27 (manufacturing of electric products), 28 (manufacturing of machines and equipment), 29 (car manufacturing), 302 (manufacturing of railway products), 304 (manufacturing of military vehicles), 309 (manufacturing of other transportation materials) and 325 (manufacturing of medical instruments and supplies) are the medium-high technology manufacturing sectors. Finally sectors 59 (image and music recording and editing), 60 (radio and television broadcast), 61 (telecommunication), 62 (software programming and consulting), 63 (information services) and 72 (research and development) are high-technology service sectors.

representativeness (sampling error was $\pm 2.34\%$ with a confidence level of 95%). Firms were randomly selected within each industry segment for a phone interview conducted between November and December of 2010 by a firm specialized in market studies with a large experience conducting similar research oriented interviews.

97% of firms in the population were contacted and asked to participate. 1500 agreed to participate and responded to the questionnaire (14.20% response rate). The survey was answered by the manager of the firm. Interviews had an average duration of 27 minutes. Missing values reduce our effective sample to 1314 for multivariate analyses (12.43% effective response rate). We found no differences in terms of size or industry between those that participate and those that refused to do so.

Primary data was obtained from the survey questionnaire answered by the managers during the interviews. This was the core source of information to measure several key constructs of our model. This information was complemented with some secondary information obtained from the SABI data base achieving a unique and original collection of data.

4.3.2 Variable measurement

Dependent

Satisfaction. It captures the level of satisfaction with the progress of the company. We measure satisfaction with the firm using a single item (Block et al., Carree and Verheul) that questions about the overall satisfaction with the firm. Hence it does not only consider financial performance but a broader set of factors, and therefore is suited to capture the influence of non-economic factors (or the influence of factors beyond pure economic performance on satisfaction). Our measure, as other studies such as Cooper and Artz, (1995), asked respondents to assess their "personal overall satisfaction with their business." The item was measured in a 5-point Likert scale. (1=totally satisfied, 5= Not satisfied at all).

Independent

Past Performance. It is measured as the mean of the operating results (in thousands) of the last three years prior to the survey (Zahra, Hayton, and Salvato, 2004; Zahra, 2005), (i.e. 2007-2008-2009) divided by the number of the employees.

Negative Performance. It is a dummy variable that takes value 1 when the firm's past performance, measured as indicated above, is negative and zero otherwise.

Family firms. The literature on family firm is somewhat disperse and it is difficult to find consensus on the exact definition of a family firm. However, the typical family firm has been characterized as an organization controlled and usually managed by multiple family members (Shanker and Astrachan, 1996; Lansberg, 1999), often from multiple generations (Anderson and Reeb, 2003; Gómez-Mejía et al., 2007). For

example, McConaughy et al. (1998) consider as a family firm any company run by a founder or member of the founding family. Similarly, Anderson and Reeb (2003), Cronqvist and Nilsson (2003), Faccio and Lang (2002), La Porta et al. (1999), Smith and Amoako-Adu (1999), Barth et al. (2005) consider family firm any business in which a founding family or founding individual own a fraction of the company or serve on the board of directors. In these categorizations the cut-off points for ownership percentage vary, often dependent on whether the firm is publicly owned or not. Villalonga and Amit (2006) examine a wide variety of definitions, encompassing different levels and generations of individual- or family-ownership and/ or management. Other studies consider involvement by multiple members of the same family over time, by counting as family firms only those in which several family members are acting as owners or managers of the business.

In our study, *family firm* (FF) is defined as any firm where the family controls directly or indirectly more than 50 percent of the shares. 54.59 percent of the firms in our sample meet this definition of family firms.

For the robustness check, we also define *family management* (FM) when family controls directly or indirectly more than 50 percent of the shares and the CEO of the firm is also family member. Furthermore, we also check our hypothesis with another restrictive definition of family firm: the *family control* (FC) that takes value 1 when family controls directly or indirectly more than 50 percent of the shares and at least one family members are present on the board of the directors.

Further, as advanced in the hypotheses we distinguish two different types of family firms:

Founder_family. They are firms that are family firms and the founder is still present in the management of the firm.

Next_gen. They are firms that are family firms but the founder is not present on the board. Thus, the next generation of the founder is managing the firm.

Control variables. We control for the respondents' demographic characteristics, specifically age, education and experience. This approach accounts for the view of Upper echelons theorists where a close relationship exists between a person's demographic characteristics, her cognitive bases and value, and in turn her strategic preferences and dispositions (Hambrick & Mason, 1984; Wiersema & Bantel, 1992): *Educational level*. It is the highest educational level that the manager has reached. It is measured by a dummy variable that takes value 1 he or she has universities studies or higher (master or doctorate) and 0 otherwise. *Experience*. Number of years of labour experience in the same industry sector. Finally, *Age manager* (*AgeM*) is a variable that measures the age of the manager of the firm.

Respondents from large organizations (e.g., Gómez-Mejía et al., 2003) or within growing industries (e.g., Schulze, Lubatkin, & Dino, 2003) are likely to have different perceptions of performance. Hence, we control for the firm characteristics and industry conditions. *Firm size* (*Size*) captures the number of employees of the firm and was captured by a question in the survey instrument. It is measured as a dummy variable taking the value 1 when the firm has more than 20 employees, and 0, when the firm has between 10 to 20

employees. (Correa et al., 2007; OECD, 1995). *Serv* is a dummy variable that takes value one when the firm belongs to a service sector and 0 when it belongs to a industry sector. *Age* is also common control variable in small firm research as it may capture differences in behavior and performance due to culture and generation issues. Firm age is computed as the difference between 2010, the year the survey was administered, and the year the facility or plant was founded. *Under-resourced (U_R)* is another variable that measure if the availability of capital has been inadequate and a major impediment to successful business development.

We have also control for entrepreneurial orientation as the individuals with strong entrepreneurial orientations are willing to take on high-risk projects in exchange for potentially high returns and satisfaction at individual level (Miller, 1983): *Entrepreneurial orientation (EO)*. It has been measured using well established scales. Specifically we employed 13 items proposed and employed by Covin and Slevin (1989) (risk taking, innovativeness and proactiveness), Lumpkin and Dess (1996) (autonomy) and Lumpkin and Dess (2001) (aggressiveness). As originally proposed all items were measured in a 7-point Likert scale. An exploratory factor analysis was conducted to confirm a single factor that made up the EO construct where was properly identified. As expected the factor analysis revealed the existence of one factor that explained 64.1% of total variance. The single factor represents EO as the average value of the 13 items. This additional measure ranges between 1 and 7. The greater its value the greater the entrepreneurial orientation of the firm.

4.3.3 Methodological approach

First, we perform ordered probit analysis to compare the past performance and satisfaction relationship of family versus non-family firms (hypothesis 1). When a dependent variable has more than two categories and the values of each category have a meaningful sequential order where a value is indeed 'higher' than the previous one, and the data is following a normal distribution, ordinal probit is the most appropriate model to use. To test Hypothesis 2, we perform ordered probit analysis to compare previous relationship between founder and next generation firms. Finally, we also use ordered probit to test hypothesis 3a and 3b making subsamples of firms experiencing positive and negative performance. The split sample method is appropriate when theory predicts independent-dependent variables relations by subgroups: (family vs. non-family) or (first vs. next generation) or (positive vs. negative performance). It makes sense when it is expected that the relationship between the dependent and independent variables, and not only the main independent, may be different between the two groups, because each model is somehow different. Besides, it has been extensively used in previous family business studies (Gómez-Mejía et al 2003; Berrone et al., 2010). We use robust standard errors in all our multivariate estimations.

4.4 Results

The descriptive statistics and correlations for the variables used in this study are reported in Table 4.1. 55.29 percent of the firms in our sample are family firms and the remaining 44.71 percent are non-family. The mean value of satisfaction is 2.96 (on a scale from 1 to 5) while the mean value of the age of the firms are 24.28 years. A close look at the values shows that past financial performance is positively correlated with satisfaction, but any of them have a significant relationship with our core variable, family firm. Family firm has significant relationship with the size and the age of the firms, and also with the industrial sector.

Table 4.1: mean, standard deviations, and zero-order correlations.

	Mean	SD	1	2	3	4	5
1.Satisfaction	2.9653	0.0359	1				
2.Past. Perf	1.4772	0.9090	0.0998 **	1			
3.EO	3.8084	0.0304	0.1275 ***	-0.0354	1		
4.Size	0.5649	0.0174	0.1174 ***	0.0103	0.1122 ***	1	
5.U_R	2.7862	0.0520	-0.1839 ***	-0.0356	-0.0012	-0.1061 ***	1
6.Age	24.2818	0.6240	-0.1021 ***	-0.0089	-0.0205	0.0456 +	0.0024
7.AgeM	45.6501	0.3618	-0.0585 *	-0.0177	0.0103	-0.0129	0.02
8.Network	2.7386	0.0235	0.0147	-0.0364	0.0568 *	0.0267	0.0666 *
9.Edu. level	0.6885	0.0163	0.0315	0.0196	0.0928 ***	0.211 ***	-0.0529 *
10.Experience	19.7688	0.3993	-0.0793 **	-0.0229	-0.0254	-0.0494 +	0.0127
11.Serv	0.2979	0.0161	0.0895 ***	-0.0173	0.0768 **	0.0416	-0.0369
12.FF	0.4586	0.0175	-0.0096	-0.018	0.0327	0.089 ***	0.0293

	6	7	8	9	10	11	12
6.Age	1						
7.AgeM	0.1135 ***	1					
8.Network	0.0029	-0.0498 +	1				
9.Edu. level	-0.0348	-0.135 ***	-0.0106	1			
10.Experience	0.1444 ***	0.7338 ***	-0.0626 *	-0.251 ***	1		
11.Serv	-0.2911 ***	-0.1041 ***	0.0272	0.2 ***	-0.1381 ***	1	
12.FF	0.1642 ***	0.0295	0.0461 +	-0.0076	0.0363	-0.1896 ***	1

Significance levels are based on a two-tailed test, +: p<0.1; *: p<0.05; **: p<0.01; ***: p<0.001

Multivariate analyses are necessary to provide a more nuanced test of Hypotheses 1 which is shown in Table 4.2. This first column shows Model 1 where entrepreneurial orientation and size have a positive and significant impact on satisfaction. However, firm age, firm difficulties to access to resources and manager experience have a negative and significant impact on satisfaction. This indicates that firms with high EO, and bigger firms will have better satisfaction. However, older firms and firm difficulties to access to resources will have less satisfaction.

The second column of Table 4.2 (Model 2) shows that the past financial performance has a positive impact on satisfaction controlling for all the previous variables. Besides, the family firm variable has no significant effect on satisfaction. Furthermore, we run a t-test analysis in order to know if there are differences in mean between family and nonfamily firms in the level of satisfaction. Thus, by itself, the family business is

not different from the non family firms. That is, family firms are not more or less satisfied than their counterparts. Variance inflation factors indicate that our estimations are free of any multicollinearity problems (Hair, Black, Babin, and Anderson, 2009).

Table 4.2: Ordered probit in Family and Non-Family firms

			Model 3	
			Satisfaction	
	Model 1	Model 2	FF	NFF
Past. Perf		3.2570 **	3.7929	3.2065 *
EO	0.1364 ***	0.1326 ***	0.1663 *	0.0694 **
Size	-0.2304 ***	-0.2593 ***	-0.3219 ***	-0.1248
U_R	-0.1295 ***	-0.1595 ***	-0.1510 ***	-0.1797 ***
Age	-0.0062 ***	-0.0052 **	-0.0078 ***	0.0000
AgeM	0.0030	0.0029	0.0011	0.0080
Network	0.0281	-0.0017	-0.0573	0.1523
Edu. Level	-0.0817	-0.0808	-0.0935	-0.0570
Experience	-0.0079 +	-0.0081	-0.0082	-0.0069
Serv	0.0747	0.0844	-0.0009	0.2555 +
FF	0.0336	0.1475		
Log pseudolikelihood	-1758.676 ***	-1117.832 ***	-773.0245 ***	-338.9009 ***
P-R2	0.0292	0.0391	0.0459	0.0331
N. Obs	1291	825	567	258

Significance levels are based on a two-tailed test, +: $p < 0.1$; *: $p < 0.05$; **: $p < 0.01$; ***: $p < 0.001$

The third column of Table 4.2 (Model 3) shows the results of the OLS regression estimated to test Hypothesis 1. As can be seen, there is a positive and significant impact of past financial performance on satisfaction in non-family firms. However, this relationship is not significant in the sample of family firms, which support our first hypothesis. For family firms, the level of satisfaction is not impacted by the level of past financial performance as it is for non family firms, because family firms have other non-economic goals that are even more important than the pure economic ones. Family firms could be satisfied independently of the economic performance because they still have the control of the firm and because they can ensure the destination of the firm for future generations. The presence of the SEW is a kind of asset very valuable for family firms, that is why they can be generally satisfied even if the economic goals are not as expected.

We also find differences between the two subsamples. The first column of table 4.3 shows that the impact of past financial performance on satisfaction in founder family firms is not significant. This means that for firms where the founder and his/her family are present the impact of past financial performance is not as important as for non family firms or for family firms governed and managed by next generation. The hypothesis 2 is also supported by the second column of table 4.3. For family firms managed by next generations, the impact of past financial performance is positive and significant. Taking into account the SEW of the family firms, in second or following generations, the presence of SEW, should be lower than in the first generation (Gómez-Mejía et al, 2007). For next generations, the SEW perspective is not as important as the first generation, ownership structures tend to be more dispersed and they try to

professionalize in order to keep competitive. Thus, the importance of past financial performance on satisfaction should be higher than the first generation, and similar to the non family firms (first column of table 4.2), because the more generations are involved, the greater the dispersion of clear objectives and the lower the presence of non-economic factors.

Table 4.3: Sub_samples: Family firm categories.

	Family_Founder	Next_generation
Past. Perf	0.7411	5.0262 *
EO	0.1629 **	0.1691 +
Size	-0.3023 **	-0.3509 **
U_R	-0.1291 ***	-0.1909 ***
Age	0.0041	-0.0109 ***
AgeM	-0.0038	0.0068
Network	-0.0296	-0.0931
Edu. Level	-0.0774	-0.0972
Exper	-0.0159 +	-0.0006
Serv	0.0213	-0.0689
Log pseudolikelihood	-438.64245 ***	-327.54769 ***
P-R2	0.0383	0.0698
N. Obs	318	249

Significance levels are based on a two-tailed test, +: $p < 0.1$; *: $p < 0.05$; **: $p < 0.01$; ***: $p < 0.001$

Finally, we also have found differences between the positive and negative performance in second and next generation family firms. We cannot support the hypothesis 3a (Model 4, table 4.4) because for family firms in general, there are not significant differences between positive and negative performance firms, but we support hypothesis 3b (Model 5-6, table 4.4), where we can see that not only the generation matter but also the performance context of the firm. It seems that when the firms are through economic difficulties, second and next generation family firms will give more importance to economic performance than the founder firms to the fear of losing everything.

Tabla 4.4: Family firms: Negative and positive performance

	Model 4		Model 5		Model 6		
	Satisfaction in FF		Satisfaction in First generation		Satisfaction in second and next generation		
	Negative	Positive	Negative	Positive	Negative	Positive	
Past. Perf	2.5311	6.6240	-2.8945	5.6113	4.6178 *	3.6320	
EO	0.0222	0.0991	0.0474	0.1109	-0.0179	0.0547	
Size	-0.0839	-0.2195	-0.1799	-0.0572	0.2771	-0.4696	
U_R	-0.0769 +	-0.1289 ***	-0.0663	-0.0971	-0.1463 *	-0.1923 **	
Age	-0.0079 *	-0.0031	-0.0071	0.0201 +	-0.0130 **	-0.0061	
AgeM	0.0049	0.0052	-0.0077	0.0135	0.0449	-0.0226	
Network	0.0093	-0.2166 *	0.0678	-0.1605	-0.1448	-0.2939 *	
Edu. Level	-0.1636	-0.2701 +	-0.2050	-0.2022	-0.3681	-0.3624	
Experience	-0.0101	-0.0131	-0.0092	-0.0310 **	-0.0104	0.0091	
Serv	0.0369	-0.0932	0.0126	-0.0421	0.2540	-0.0889	
Log	-364.13 **	-305.99 ***	-218.91 ***	-161.55 ***	-132.86 ***	-134.96 ***	
P-R2	0.0181	0.0408	0.201	0.0492	0.0865	0.0784	
N. Obs	287	280	168	150	119	129	

Significance levels are based on a two-tailed test, +: $p < 0.1$; *: $p < 0.05$; **: $p < 0.01$; ***: $p < 0.001$

4.4.1 Robustness check: *Definition of family firm*

Consistent with the vast majority of the previous literature, our definition of family firm took ownership into account. However, in addition to ownership, family control of the firm may also manifest in family members holding key management positions. We first checked whether our conclusions change if we consider a more restrictive definition of family firm, one that besides ownership considers the management dimension. The first new variable took the value 1 if in addition to the minimum ownership requirement the CEO of the company is a family member. The second new variable took the value 1 if in addition to the minimum ownership requirement there were family members in the management team of the company and/or its board. In most cases, the controlling families also had members in the management team and/or the board of directors. This suggests that family ownership is closely linked to family management, and therefore one single condition (in this case ownership) correctly identifies the family firms in our sample. As can be seen in the results of the model 7 and 8 summarized in Table 4.5, results do not alter the conclusions drawn from previous analyses finding support for hypotheses 1. Specifically this model replicates the estimation of model 3 in Table 4.2.

Table 4.5: Robustness check of family firm definition

	Model 7		Model 8	
	Satisfaction		Satisfaction	
	FM	NFM	FC	NFC
Past. Perf	9.6808	3.1476 *	3.7115	3.1304 *
EO	0.1841 *	0.1214 **	0.1236	0.1430 **
Size	0.0881 *	0.0859 **	0.0789 ***	0.0918 +
U_R	-0.3695 **	-0.2322 ***	-0.3894 ***	-0.1632 ***
Age	-0.1654	-0.1444 **	-0.1822 **	-0.1300
AgeM	-0.0040	-0.0063	-0.0070	-0.0033
Network	0.0041	0.0053	0.0019	0.0057
Edu. level	-0.0085	0.0152	-0.0855	0.0743
Experience	-0.1252	-0.0358	-0.1195	-0.0678
Serv	-0.0108	-0.0059	-0.0054	-0.0095
FF				
Log	-303.07433 ***	-795.738 ***	-467.66 ***	-629.458 ***
P-R2	0.0561	0.0331	0.0569	0.0304
N. Obs	222	592	345	469

Significance levels are based on a two-tailed test, +: $p < 0.1$; *: $p < 0.05$; **: $p < 0.01$; ***: $p < 0.001$

4.5 Conclusion and discussion

Our theoretical and empirical analyses provide new ways of understanding the role of non economic factors (SEW) in the satisfaction construct and thus provide several academic and practical contributions.

Contributions to academia

Research comparing the financial performance of family and nonfamily firms has also uncovered both the positive and negative consequences of family involvement in family firms' management. This study contributes to the family business literature by providing evidence that family involvement can create socioemotional wealth for family firms and that this influences the families' satisfaction with the firm.

Second, the paper adds to the growing literature on family firms that looks at how SEW preservation motives drive the perceptions of family firms. While the SEW preservation goal of family firm is unquestioned, a key ongoing debate in the family firm literature centers on understanding how economic and non-economic goals are balanced by these firms. Being able to control for the pure economic performance of the firms, the results of the present chapter may provide additional evidence to help understand the importance of the non-economic goals in the global satisfaction measure of family firms.

Thirdly, the contrasting findings in the family business literature regarding the financial performance of family firms can be explained by the heterogeneity of family firms (Mazzi 2011; Olson et al. 2003). This paper establishes the heterogeneity of family firms' strategies and thus the importance of paying closer attention to examining such strategic heterogeneity and explaining its sources in the family business research.

Lastly, the paper enhances the existing literature by considering a representative sample of small firms that are characterized by more flexible non-hierarchical structures, which may be the appropriate organizational forms in changing business environments (Yang and Chen 2009).

Contributions to practice

For managers, the findings suggest that particular goals, attitudes, and backgrounds are likely to be associated with greater satisfaction. This study casts light on why, in particular settings, some managers may be more satisfied than others. This may influence whether some managers stay with marginal businesses, keep on going with business when the financial performance is even negative, because the satisfaction is not an pure economic measurement.

This paper shed light to why underperforming firms, defined as “organizations whose performance, by any standard, falls short... yet whose existence continues, sometimes indefinitely” (Meyer and Zucker, 1989, p. 19) that have been described variously as “chronic failure firms”(van Witteloostuijn, 1998) or “living dead” (Bourgeois and Eisenhardt, 1987; Ruhnka et al., 1992), are still alive (Gimeno et al., 1997). In the case of family firms, we suggest that because of the SEW, the family managers will remain in the firm because their general satisfaction will be good enough for them to stay in the business, although maybe the financial measure were not good as expected.

Limitations and Concluding Remarks

Our work is not free of limitations. At least four aspects should be highlighted. First, we don't have a direct measure of SEW; rather we proxy it using family ownership and management. Although not perfect, we believe is a valid first-degree approximation to SEW construct. Nonetheless, future research should try to directly measure SEW and its link to satisfaction. To this end the ideas provided by Berrone et al. (2012) may be of great help.

Secondly, the data that is cross-sectional. Cross-sectional studies can suggest correlations but do not allow researchers to infer causal relationships or effects over time.

Thirdly, our sample consists entirely of Spanish firms, thus, any inference to other countries must be made with caution. Country-specific cultural and traditional influences may reduce the generalizability of our findings.

Finally, data collection also captured a unique environmental context of economic and financial crisis. This added further difficulty to the already complex environment of firms in the high tech and medium-high tech industries, which is characterized by high degrees of dynamicity and stiff competition. This particularly harsh context may have reduced the latitude of action of firms, as well as influenced the impact of their decisions on subsequent firm performance. We extend a call to other researchers to explore the issues analyzed here to multiple cultural contexts, as well as to time periods absent of any global economic crisis.

In conclusion, the impact of past financial performance on satisfaction in family firms is lower because for these firms the SEW or non economic goals are very important in the subjective evaluation of satisfaction. Besides, taking into account the heterogeneity of family firms, we have shown that next generations will behave as non family firms because the presence of SEW is diluted over time and the level of general satisfaction with the company will be more influenced by the past financial performance.

CHAPTER V: GENERAL CONCLUDING REMARKS OF THE THESIS

5. Concluding remarks

5.1 Theoretical and practical contributions

The preceding three chapters have presented three studies that aimed at enhancing our understanding of the behavior and strategic decision making of family firms. Taken globally, they contribute to the family business literature linking the different behaviors of the family business to core elements such as the entrepreneurial orientation, the corporate social responsibilities and the general satisfaction with the firm.

Based on the Spanish privately and publicly held firms of more than fifty employees, the first study has examined how socio-emotional factors can influence family firms' commitment to entrepreneurially oriented activities, and how such effect could be moderated by the industry's technological intensity and the family firm's performance. The results show that family firms are less entrepreneurially oriented than non-family firms due to the pervasive influence of SEW protection motives in their decision making.

We have also considered the decisive role of moderating factors (Rauch et al. 2009) examining the role of the technology intensity of the sector and firms' economic difficulties. Consistent with our hypothesis, family firms in more technology-intense industries exhibit similar EO levels to those of non-family firms. In less technology-intense industries, however, family firms are significantly less entrepreneurially oriented than non-family firms, the reason being that, in technology-intense environments, failure to invest in entrepreneurship is riskier than actually making the investment. So, for firms competing in technologically demanding industries, investment in entrepreneurship is the price they have to pay to remain competitive. Indeed, family firms in this setting are more willing to sacrifice a portion of their SEW in order to keep their economic returns to a certain (aspirational) level. In less technology-intense sectors, however, where investment in EO is less crucial for firm survival, and the preservation of SEW therefore weights more heavily. Our analyses did not provide support for the moderating effect of the economic difficulties variable. Consistent with some recent evidence (e.g. Christman & Patten, 2012) we expected the reference point for family firms to shift from SEW protection to economic considerations in the face of economic difficulties. The fact that we continue to find a lower degree of EO, irrespective of such problems signals that SEW protection is an enduring characteristic of family firms and significantly drives their decisions. These findings are of great relevance for family firm research. Extant research has, in line with our finding of lower EO in family firms, documented SEW protection as a major driver in the decision-making process of family firms. However, economic goals may sometimes conflict with the desire to protect SEW. Our study may provide evidence to help discern how family firms balance these two goals (i.e. economic and non-economic) under different circumstances.

This first study offers several suggestions and implications for family-firm managers. From a purely economic standpoint, it appears that family firms can benefit by increasing investment in EO (Rauch et al. 2009), this is particularly true in the case of firms operating in technology intense sectors, where EO is fundamental to survival. Since increasing emphasis on EO may place SEW in jeopardy, families should

seek a balance between maximizing economic performance and preserving their identity (i.e. SEW). Since under-investing in EO can lead to opportunity loss and lack of competitiveness, the challenge for controlling families is to increase EO while preserving SEW.

By investigating the corporate social responsibility of publicly held companies in Europe with market capitalization over €50 million, our theoretical and empirical analyses in chapter three provide new ways of understanding the role of ownership structures in the adoption of practices to respond to different stakeholder. While prior literature in the area has studied the role of family ownership and CSR, there has been debate about how this influences social practices. The distinction between internal and external stakeholders, and the acknowledgement of the multidimensional nature of SEW, sheds light and helps reconcile contrasting positions. Our work shows that family firms can spur social initiatives and be as socially responsible as nonfamily firms when they are linked to external stakeholders (as a way to protect their reputation and image, and thus increase their SEW). At the same time, they abate social practices when they are oriented toward internal stakeholders (as a way to secure control and emotional bonds, and enhance their SEW). Thus, SEW can be a “double-edged sword” eliciting both socially responsible and irresponsible behavior in family firms, having both a bright and a dark side.

Our evidence, suggesting that the underlying drivers that push social initiatives in both ownership forms are significantly different, confirms the uniqueness of family company identity through the use of SEW as a reference point to guide strategic decisions (Berrone et al., 2012). Going further, our results indicate that because family firms use SEW preservation as a reference point rather than using far-off targets defined by institutional factors (i.e., national standards or industry conditions), they are less likely to “follow the norm” when responding to social claims from internal and external stakeholders. However, concern with SEW preservation also implies that family firms’ social practices will be more responsive to organizational factors that may jeopardize family SEW and specifically to the evolution of firm performance. As noted, family firms tend to reduce their externally oriented social activities when faced with a decline in performance. Overall, our results show that family firms do not operate in a vacuum and that institutional and organizational factors can affect the way they function and operate.

From the managerial perspective, managers who are keen to pursue social actions need to know that their chances of adoption are contingent on the firm’s ownership structure. The chances of implementing practices are higher in family firms as long as they are related to external stakeholders. However, if managers intend to focus on actions that improve the conditions of internal stakeholders, they will encounter resistance in family firms. Paradoxically, family firms see these practices (or the lack of them) as a valuable way to preserve their socioemotional endowments. Family firm managers should be aware of these circumstances and engage themselves in the search for truly efficient management practices.

Finally, the third study based on a unique representative sample of Spanish small firms in high and medium technology manufacturing and service industries contains several contributions. First, it provides evidence that family involvement creates SEW for family firms and that influences the families’ satisfaction with the firm. In this vein, the paper adds to the growing literature on family firms that looks at how SEW preservation motives drive the perceptions of family firms. Being able to control for the pure economic

performance of the firms, the results of this chapter may provide additional evidence to help understand the importance of the non-economic goals in the global satisfaction measure of family firms. Second, the chapter contributes to one of the central topics in the literature of family firms these days: the understanding of the heterogeneity of family firms. We note that the importance of SEW, and therefore the balance of economic and non-economic (i.e. SEW) goals, varies with generations. We argue that over generations SEW evolves and pure economic goals gain relevance, and therefore propose that the impact of past economic performance on satisfaction with the firm increases over generations. Third, it contributes to the scarce literature in the determinants of satisfaction with the business for firm owners. It is relevant to note that existing research has focused on satisfaction with firm economic performance. We do not restrict ourselves to economic performance but focus on general satisfaction with the firm, and therefore reflect satisfaction with both economic and non-economic (i.e. SEW) aspects of the firm. We also have found that when firms experience a decline in performance that may even put firm survival at stake, it may be advisable for them to focus scarce resources on core activities with more certain economic returns (Starbuck & Hedberg, 1977). In the case of family firms, Chrisman and Patel (2012) state, “as performance weakens, family firms are expected to frame decisions more negatively than non-family firms . . . , owing to the prospect of both economic losses and losses of socioemotional wealth” (p. 980). Therefore, the decisions made by family firms are more sensitive to declining performance than nonfamily firms. Thus, when performance declines, controlling families tend to pay more attention to economic terms, to the survival (March & Shapira, 1992) changing the weight of the components of their utility function and giving more importance to the economic part. Inside the family firms, we have found that only second and next generation are more similar to the non-family firms when the performance is declining. So, in some circumstances, the behavior of these family firms are more like the non-family ones. This paper establishes the heterogeneity of family firms’ strategies (Berrone, et al 2010) and thus the importance of paying closer attention to examining such strategic heterogeneity and explaining its sources in the family business research.

Taken together all the chapters, we have shown the value and importance of SEW through different databases with different samples (vary in size of firms, combining primary and secondary data, public versus private firms and also geographically).

Besides, the environment conditions in which the company moves, and the surrounding circumstances, are affecting the company outcomes. It seems that firm do not act in a vacuum and the role of the environmental and organizational context matters. Such environment seems to moderate the importance of SEW preservation preferences in family firms, and consequently family firm’s decision making.

In addition, the heterogeneity family firm has been taken into consideration. For example, in Chapter 3 we suggest that while the SEW is treated as something monolithic, its elements can play different roles in different family businesses and their institutional and organizational contexts. That is, there may be some family firms that prioritize more control and ownership and others which pay more attention to the external image. In chapter 4, we also proved that family firms are heterogeneous between them (being the generation and the performance situation two important elements of this heterogeneity). The weight of non

economic goals will be lower in later generation and there are SEW dimensions such as the image and reputation that prioritize their focus on pure economic aspects of company performance.

5.2 Limitations

Our studies are not free for limitations. The limitations of each paper are illustrated in detail in the corresponding chapters. A few central ones could be emphasized here. As regards the first paper, data were collected in 2007, before the current economic crisis unraveled. While increased pressure to remain competitive in the current economic situation may push some family firms to become more entrepreneurially oriented, others may become more risk-averse in order to save existing resources and ensure survival.

As we have shown in the chapter two the family firms do not constitute a homogeneous population (Salvato 2004; Gómez-Mejía et al. 2011). Thus, different types of family firms may present different EO patterns (Cruz and Nordqvist 2012; Kellermanns & Eddleston 2006) and in this chapter, based on the sample we have, we are not able to distinguish between generations. Moreover, while our research design considers EO a unidimensional construct (Covin & Wales 2012), it could also be conceptualized as a multidimensional construct (Wales et al. 2013) because there could be potential differences between family and non-family firms across the different dimensions in which EO has an impact.

The third chapter was based on a more diversified and complete sample, focusing in different European countries and in a longitudinal data. However, they are only publicly held companies. While it is widely agreed that these companies are more exposed to institutional pressures, further studies should examine how family control issues and emotional bonds interact with CSR outcomes in the case of private family firms. Besides, our distance variable considered the United States as our reference point. We noted the use of country distances, as proxies for the relative presence of high standards for CSR, demands the selection of a reference country with high CSR standards. This limitation should be kept in mind when implementing this approach. We also ran our analyses taking a European country, the United Kingdom, as a reference. Results are very similar to those obtained when the United States was used as our benchmark.

The fourth chapter used Spanish data from Spanish small and medium privately firms. Such information was collected in 2010. Hence, the data was obtained in a unique environmental context of economic and financial crisis. This added further difficulty to the already complex environment of firms in the high tech and medium-high tech industries, which is characterized by high degrees of dynamicity and stiff competition. This particularly harsh context may have reduced the latitude of action of firms, as well as influenced the impact of their decisions on subsequent firm performance. As it happens with the first study, the data is cross-sectional. Cross-sectional studies can suggest correlations but do not allow researchers to infer causal relationships or effects over time and the sample consists entirely of Spanish firms, thus, any inference to other countries must be made with caution. Country-specific cultural and traditional influences may reduce the generalizability of our findings.

A limitation shared by the three chapters is the inability to directly measure the SEW. Family ownership has been the most common proxy used to capture the intensity of SEW in prior studies and many articles in top journals have validated it (Berrone et al., 2010; Gómez-Mejía et al., 2007, 2011). Moreover, as the concentration of company ownership in family hands increases, the family has greater influence over the firm's strategic decisions (Anderson & Reeb, 2003; Miller, Le Breton Miller, & Lester, 2010), reinforcing the control dimension of SEW, the level of personal attachment and identification, and the emotional bonds between family members and the firm (French & Rosenstein, 1984). In addition, as Berrone et al. (2012) argued, the percentage of shares owned by a family is "perhaps the only available alternative when using large archival databases" (p. 264). Additionally, controlling family influence over company affairs increases with the presence of at least one member on the board of directors (Anderson & Reeb). However, the degree of family identification, influence and personal investment in the firm changes as the company evolves across generations (Gersick et al., 1997; Schulze et al., 2003). As we have mentioned in chapter four, Dyer (1988) and McConaughy and Phillips (1999) note the differences between first and following generations in family firms. As noted in the introductory chapter, direct measure of SEW will be of particular interest in order to provide a more precise response to relevant research questions in the field of family firm. It is within our purpose to try to measure the SEW in a direct way, through a survey instrument that grounds in scales already proposed by renowned authors such as Berrone et al. 2010.

5.3 Future research

In continuing with my research of family firms behavior, the first objective we have in mind for the near future is, as we have just mentioned, to develop a survey instrument to obtain a more direct measure of SEW in family firms. This will further enhance our capability to expore the differences between family and non-family but also, the differences inside family. These future survey instrument will take into account different measures such as ownership, control, management and the generation involvement.

The findings of the second chapter should encourage scholars to further investigate the impact of the multidimensional construct of EO in family firms. We believe that future research should also explore potential differences between family and non-family firms across the different dimensions in which EO has an impact in the subsequent effect in firm performance. Besides, Extensions should also consider the decisive role of moderating factors (Rauch et al. 2009). We have taken some initial steps in this direction by examining the moderating role of the technology intensity of the sector and firms' economic difficulties, but there are others moderating factor, such as the generation involvement that could refine the results.

The third chapter could inspire researchers to further investigate CSR and family firms' relations in publicly owned companies examining how family control issues and emotional bonds interact with CSR outcomes in the case of private family firms. Moreover, private family firms are likely to useless formal internal and external practices. In fact, as we see it, the formality of social practices in the case of listed firms can be a valid response to an important stakeholder: the shareholders. Future studies should address what happens

to the relationship between family influence and CSR in contexts in which this formality is not required, as is the case of privately owned firms.

Finally, future research could build on the findings of the fourth chapter by investigating differences in the satisfaction with the company among family firms, measured by different objective or subjective satisfaction measures, being able to capture both economic and emotional aspiration goals. For instant, Cooper y Artz (1995), in order to operationalize the satisfaction measure for entrepreneurs, asked respondents to assess several dimensions of satisfaction. Four of these items were used to measure entrepreneurial satisfaction. The first two assessed the entrepreneurs' satisfaction with their ventures' sales and with profits. Whereas these questions address specific performance areas, the third item asked respondents to assess their "personal overall satisfaction with their business". For each of these first three items, entrepreneurs were asked to compare their year 3 satisfaction to what they expected it to be when they started. The fourth survey item evaluated the entrepreneurs' willingness to start the same business again. Hence, this item also assessed the entrepreneurs' overall satisfaction with their ventures. A similar instrument that focuses on distinguishing economic and non-economic aspirational goals, may be valid to assess, as pointed above, the different impact that those goals have on overall satisfaction.

5.4 Conclusions

As a whole my work in the present dissertation demonstrates the importance of SEW for the study of family business. Any attempt to reach a better understanding of this particularly relevant type of firms, and how their decisions may deviate from those of non-family firms should take the SEW protection preferences of controlling families into account. This work shows the presence of these SEW protection preferences in major strategic decisions of the family business, pointing how family firms balance these SEW protection objectives with the economic ones depending on certain circumstances. The dissertation has also acknowledge that all the non-economic factors that are summarized within the SEW label may play different roles, and may vary with the generation of the controlling family. Importantly, the dissertation has showed the importance of SEW preservation goals in different types of firms and across different countries. Thus, taken together, the current dissertation constitutes an important step in increasing our general understanding of how family firms behave, opening up promising avenues for future research.

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